OVERVIEW OF 2015

Revenue lower than in previous year Having made a solid start in the first six months of 2015, our business suffered in the second half of the year due to a slowdown in global economic growth and a strong reluctance to invest on the part of our customers. Moreover, the advance production of engines in the prior year continued to have an impact. As a result, our revenue was down by 18.5 per cent to €1,247.4 million. Unit sales fell by 29.8 per cent to 137,781 engines. However, operating profit (EBIT) remained in positive territory at €4.9 million, underlining the effectiveness of the measures we have taken to improve efficiency.

Consolidation in China In view of lower growth forecasts in China, we decided in 2015 to consolidate our Chinese manufacturing operations. In future, our established DEUTZ Dalian joint venture, which has adequate capacity, will satisfy local demand. As part of this consolidation, we wound up our DEUTZ Engine (China) Co., Ltd. joint venture, sold the WEIFANG WEICHAI-DEUTZ DIESEL ENGINE CO., LTD. joint venture to our previous co-shareholder and initiated the closure of the DEUTZ Engine (Shandong) Co., Ltd. joint venture.

Optimisation of German site network on schedule The decision that we took in 2014 to optimise our network of sites in Germany is being implemented as planned. Firstly, this includes the consolidation of our facilities in Cologne, where we are moving out of our Cologne-Deutz site and, from 2016, will begin producing camshafts and crankshafts in a new shaft centre at our largest site in Cologne-Porz. Secondly, our exchange engine plant in Übersee on Lake Chiemsee will have been integrated into the plant in Ulm by 2017 and will then be closed; assembly and order management have already been moved. We expect these measures to bring about a further long-term increase in our efficiency.

Positive market response to new products Our TCD engines equipped with a diesel particulate filter in the 2.9 to 7.8 litre cubic capacity range already meet EU Stage V, the next European emissions standard, which is expected to come into effect in 2019. This offers many advantages to our customers. The feedback on our products has been very positive. We have also announced that we intend to add gas engines to our product range in future. In addition, we have intensified our existing partnership with the KION Group, entering into an extended long-term cooperation arrangement.

FUNDAMENTAL FEATURES OF THE GROUP

BUSINESS SEGMENTS AND PRODUCT RANGE

For over 150 years, DEUTZ has been supplying reliable drive systems for mobile and standalone static applications – as an independent manufacturer of compact diesel engines in the 25kW to 520kW power range for both on and off-road use. We develop, design, produce and sell diesel engines that are cooled by water, oil or air. The operating activities of the DEUTZ Group are divided between the DEUTZ Compact Engines segment and the DEUTZ Customised Solutions segment: the DEUTZ Compact Engines segment comprises liquid-cooled engines with capacities of up to eight litres, while the DEUTZ Customised Solutions segment specialises in air-cooled engines and large liquid-cooled engines with capacities of more than eight litres. Operating under the name DEUTZ Xchange, the DEUTZ Customised Solutions segment also supplies reconditioned parts and engines as the main element of our service business.

We also offer our customers advice and support on operating the machinery. Our services are closely aligned with each of our customers' individual needs. We actively assist customers with the repair, maintenance and servicing of their vehicles and machines fitted with DEUTZ engines. The global DEUTZ service network, which comprises subsidiaries, service centres and authorised agents, guarantees a reliable and rapid supply of spare parts.

LEGAL STRUCTURE AND PRODUCTION SITES

DEUTZ maintains a comprehensive international presence in a globalised market: with 13 sales companies, seven sales offices and over 800 sales and service partners in more than 130 countries, we can offer our customers service and support virtually anywhere with very short response times. DEUTZ AG is the executive and operating parent company in the DEUTZ Group; it is headquartered in Cologne, Germany, and has various domestic and foreign subsidiaries. The subsidiaries include a production facility in Spain and several companies that perform sales and service functions.

In addition to DEUTZ AG, six German companies (31 December 2014: six) and twelve foreign companies (31 December 2014: 14) were included in the consolidated financial statements as at 31 December 2015. A complete list of DEUTZ AG shareholdings as at 31 December 2015 is given in the annex to the notes to the consolidated financial statements on page 123.

DEUTZ AG

DEUTZ Compact Engines	DEUTZ Customised Solutions
• Liquid-cooled engines of up to 8 litres cubic capacity	• Air-cooled engines • Liquid-cooled engines of more than 8 litres cubic capacity

MARKET AND COMPETITIVE ENVIRONMENT

DEUTZ manufactures diesel engines for professional applications used in countries with stringent emissions standards, in particular Stages III and IV. These technically sophisticated applications include construction equipment, agricultural machinery, lifting and material handling equipment, pumps, gensets, medium and heavy-duty trucks and buses. The market for DEUTZ engines is therefore separate from the market segments for diesel engines used in passenger cars and small commercial vehicles up to a permissible gross weight of around 3.5 tonnes. Diesel engines that rely on outdated technology and that are intended for use in applications in countries or application segments with only very low requirements in terms of product quality, emissions and fuel consumption also do not feature in our target market.

The market for technically sophisticated diesel engines can be divided into the captive segment and the non-captive segment. The captive segment comprises equipment manufacturers who produce their own engines; some of these manufacturers are also active as engine suppliers in the market. The non-captive segment is made up of equipment manufacturers who for the most part do not produce their own engines and who, therefore, buy in engines from other suppliers. It is in this non-captive market that DEUTZ sells its high-value engines with outputs between 25kW and 520kW around the globe.

In recent years, we have attained an outstanding position as one of the biggest suppliers in the non-captive market. We face competition from other engine suppliers in western Europe, North America and Asia, but none of these competitors can offer an identical product range to DEUTZ in terms of the power outputs and application segments that they cover.

Main competitors

Application segments	Applications	Main competitors (in alphabetical order)
Mobile Machinery	Construction equipment Ground support equipment Material handling equipment Mining equipment	Cummins, USA Kubota, Japan Perkins, UK Yanmar, Japan
Agricultural Machinery	Tractors Harvesters	Deere, USA Kubota, Japan Perkins, UK Yanmar, Japan
Stationary Equipment	Gensets Compressors Pumps	Deere, USA Kubota, Japan Perkins, UK Yanmar, Japan
Automotive	Special vehicles Rolling stock Trucks Buses	Cummins, USA Fiat Powertrain, Italy MAN, Germany Mercedes, Germany

INTERNAL CONTROL SYSTEM

RESPONSIBLE CORPORATE MANAGEMENT BASED ON TRANSPARENT PERFORMANCE INDICATORS

The DEUTZ Group defines its budget targets and medium-term corporate targets using selected key performance indicators (KPIs). In order to increase profitability and achieve sustained growth, we manage the Group using the following financial performance indicators:

		2015	2014
Revenue growth	(%)	–18.5	5.3
EBIT margin before one-off items	(%)	0.4	2.1
Working capital ratio [1] (average)	(%)	17.6	13.3
ROCE before one-off items [2]	(%)	0.6	3.9
R&D ratio	(%)	3.3	3.5
Free cash flow [3]	(€ million)	35.0	52.0

[1] Working capital ratio (average): ratio of working capital (inventories plus trade receivables less trade payables), as an average of the four quarters, to revenue for the preceding twelve months.
[2] Return on capital employed (ROCE): ratio of EBIT to average capital employed. Capital employed: total assets less cash and cash equivalents, trade payables and other current and non-current liabilities, based on average values from two balance sheet dates.
[3] Free cash flow: cash flow from operating and investing activities less net interest expense.

Our internal control system focuses, on the one hand, on revenue growth and the EBIT margin before one-off items, while on the other hand, we manage tied-up capital via the average working capital ratio. In conjunction with working capital and EBIT optimisation, this in turn determines the return on capital employed.