

Overview of 2015

Fundamental features  
of the Group

Internal control system

## DEUTZ AG

## DEUTZ Compact Engines

- Liquid-cooled engines of up to 8 litres cubic capacity

## DEUTZ Customised Solutions

- 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 Diesel engines that rely on outdated technology and that are intended for use in applications in countries or application segments with only very low requirements in terms of product quality,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	Cummins, USA Kubota, Japan Perkins, UK Yanmar, Japan
	Ground support equipment	
	Material handling equipment	
	Mining equipment	
Agricultural Machinery	Tractors	Deere, USA Kubota, Japan Perkins, UK Yanmar, Japan
	Harvesters	
Stationary Equipment	Gensets	Deere, USA Kubota, Japan Perkins, UK Yanmar, Japan
	Compressors	
	Pumps	
Automotive	Special vehicles	Cummins, USA Fiat Powertrain, Italy MAN, Germany Mercedes, Germany
	Rolling stock	
	Trucks	
	Buses	

## 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 <sup>1)</sup> (average)	(%)	17.6	13.3
ROCE before one-off items <sup>2)</sup>	(%)	0.6	3.9
R&D ratio	(%)	3.3	3.5
Free cash flow <sup>3)</sup>	(€ million)	35.0	52.0

<sup>1)</sup> 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.

<sup>2)</sup> 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.

<sup>3)</sup> 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.