

Overview of 2016

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 EU Stage III A, III B and IV (as well as the equivalents in the US and other countries). These technically sophisticated applications include construction equipment, agricultural machinery, lifting and material handling equipment, pumps, gensets, medium-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 3.5 tonnes. Engines that rely on outdated technology and that are intended for use in applications in countries or application segments with only very low requirements in terms of product quality,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 suppliers. It is in this non-captive market that DEUTZ sells high-value engines with outputs between 25 kW and 520 kW around the globe.

We have attained a good position as one of the biggest suppliers in the non-captive market. We face competition from rival 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)
<b>Construction Equipment</b>	Excavators	Cummins, USA
	Wheel loaders	Isuzu, Japan
	Pavers	Weichai, China
<b>Material Handling</b>	Mining equipment	Yanmar, Japan
	Forklift trucks	Cummins, USA
	Telehandlers	VW, Germany
	Lifting platforms	Yanmar, Japan
<b>Agricultural Machinery</b>	Ground support equipment	Zhejiang Xinchai, China
	Tractors	Deere, USA
	Harvesters	Kubota, Japan
<b>Stationary Equipment</b>	Gensets	Perkins, UK
	Pumps	Yanmar, Japan
	Compressors	Cummins, USA
<b>Automotive</b>	Rolling stock	Kubota, Japan
	Special vehicles	Perkins, UK
	Trucks	Yanmar, Japan
	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 on the basis of the following financial performance indicators:

		2016	2015
Revenue growth	%	1.0	-18.5
EBIT margin (before exceptional items)	%	1.9	0.4
Working capital ratio <sup>1)</sup> (average)	%	17.9	17.6
ROCE (before exceptional items) <sup>1)</sup>	%	3.1	0.6
R&D ratio	%	4.0	3.3
Free cash flow <sup>1)</sup>	€ million	4.7	35.0

<sup>1)</sup> These KPIs are alternative performance measures that are not defined in the International Financial Reporting Standards (IFRS). A reconciliation of these KPIs to the amounts recognised in the financial statements is provided below.