

## FOREWORD

*Dear shareholders,  
friends and partners of our Company*

DEUTZ operates in a market in which one topic is very much at the forefront of discussion: the future of the internal combustion engine and, in particular, that of the diesel engine. This prompted us to shine the spotlight on the environmental sustainability of our products in our latest annual report. We firmly believe that, going forward, the diesel engine will continue to justify its place in the application segments that we serve – which are mainly off-road applications – from a technological, financial and environmental perspective. At the same time, we will tackle the challenges resulting from alternative drive systems and seize the opportunities for our Company that this presents.

In 2016, the economy was again characterised by a variety of global risks and uncertainties. Prices for oil, commodities and agricultural goods were at a very low level, although they did rise over the course of the year. In this business environment, we were able to buck the market trend and generate a small amount of growth. New orders were up by 2.9 per cent year on year and reached €1,261.4 million. We sold 132,539 engines and our revenue increased by 1.0 per cent to €1,260.2 million, which was in line with our forecast that revenue would stagnate or, at best, rise slightly.

It was particularly encouraging that our measures to boost efficiency are having an effect. Despite only a slightly larger volume of business, EBIT improved significantly, from €4.9 million to €23.4 million. The EBIT margin stood at 1.9 per cent, compared with 0.4 per cent in 2015. We therefore fully met our forecast of a moderate increase in the EBIT margin.

As well as the fall in the cost of materials and in depreciation and amortisation, we also benefited from the measures aimed at optimising our network of sites. These measures are fully on schedule and will deliver a positive contribution to earnings of around €10 million this year – and an even higher contribution in future years as capacity utilisation rises. Production of crankshafts and camshafts at the Cologne-Porz site is already in full swing – and with an improved environmental footprint. We will complete the relocation of activities from Übersee on Lake Chiemsee to Ulm during the course of this year.

The success of our Company depends heavily on our ability to impress our customers with innovative products that are at the leading edge of technology. In the year under review, we exhibited at a number of trade fairs, where we presented various new engines that will be launched on the market in 2019 in time for the EU Stage V emissions standard. These new engines will broaden our product portfolio, particularly at the lower and upper ends of the power output range. They include gas variants, the DEUTZ powerpack and larger engines to be developed as part of a planned strategic alliance with Liebherr. The new products attracted highly positive feedback from customers.

**Dr Ing Frank Hiller**

Chairman of the Board  
of Management,  
responsible for technical  
and head-office functions



**Dr Margarete Haase**

Board of Management  
member, responsible  
for finance, human  
resources, and investor  
and public relations



**Michael Wellenzohn**

Board of Management  
member, responsible  
for sales, service and  
marketing



Last year, we again succeeded in signing up new customers and finding new applications for our engines. At the same time, we are continuing to focus on steadily expanding our high-margin service business over the long term.

“We want to work together with our customers in stable, long-term partnerships and offer them assured and innovative technologies. Our objective is to further strengthen our market position and our commercial success and thus make ourselves more attractive to our customers and the capital markets.”

Dr Ing Frank Hiller,  
Chairman of the Board of Management of DEUTZ AG  
(since 1 January 2017)

In summary, we can say that 2016 was in line with our expectations. DEUTZ shares performed very well, with the price rising by 45.0 per cent year on year. This positive trend has continued in the first few months of 2017. We also believe it is important to pay a consistent dividend. Together with the Supervisory Board, we therefore propose that the dividend for 2016 remain unchanged at €0.07 per share.

We would like to take this opportunity to particularly thank our employees, who work very hard to make our Company successful. Our sincere thanks also go to our business partners and shareholders for the trust that they place in us; we intend to continue to repay this trust in future.

Although we anticipate that the market will stagnate in 2017, or perhaps grow slightly, we can already see early signs of a potential improvement in the market. Our European customers should now be coming to the end of their inventories, which will be beneficial for us. In 2017, we expect revenue to improve significantly and the EBIT margin before exceptional items to rise moderately. We also predict substantial positive one-off effects from property transactions in the near future, or possibly as early as this year depending on the negotiations to be conducted.

Kind regards from Cologne,



Dr Ing Frank Hiller



Dr Margarete Haase



Michael Wellenzohn