NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

PARENT COMPANY

The parent company of the DEUTZ Group is DEUTZ AG. Its registered office is located at Ottostrasse 1, 51149 Cologne, Germany, and the Company is entered under no. HRB 281 in the commercial register at the local court in Cologne. The Board of Management approved these consolidated financial statements for publication by adoption of a resolution dated 17 February 2017.

DEUTZ AG shares are listed in the Deutsche Börse SDAX segment and are publicly traded on the stock exchanges in Frankfurt and Düsseldorf as well as on the Xetra electronic trading platform.

DEUTZ is an independent manufacturer of compact diesel engines. The Group's activities are divided into two operating segments – DEUTZ Compact Engines and DEUTZ Customised Solutions – and the Other segment. In its two operating segments, DEUTZ focuses on value creation processes involving the development, design, production and sales of liquid-cooled and air-cooled engines. The business is broken down into the main application segments of Construction Equipment, Material Handling, Agricultural Machinery, Automotive, and Stationary Equipment. Comprehensive after-sales service rounds off the product range offered. In 2015, the Construction Equipment and Material Handling application segments had been aggregated in the Mobile Machinery application segment.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The DEUTZ Group's consolidated financial statements prepared for the parent company DEUTZ AG are based on uniform accounting policies. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations as adopted by the European Union (EU) and are consistent with the statutory obligations applicable to publicly traded parent companies subject to disclosure requirements pursuant to section 315a (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 concerning the application of international accounting standards, as amended (IAS Regulation).

The consolidated financial statements are generally prepared using the cost method. Specific exceptions are derivative financial instruments and available-for-sale financial assets, which are measured at fair value. The consolidated financial statements are prepared in euros. Unless otherwise stated, all figures are rounded up or down to the nearest million euros.

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

1) Amendments to accounting policies

The accounting policies on which the consolidated financial statements are based are fundamentally the same as the policies applied in 2015 with the exceptions set out below.

'Disclosure Initiative' (Amendments to IAS 1) The IASB published these amendments to IAS 1 in December 2014. The amendments largely consist of clarifications regarding the use of discretion in the presentation of financial statements. Initial application of the amendments has not had any material impact on the consolidated financial statements.

'Clarification of Acceptable Methods of Depreciation and Amortisation' (Amendments to IAS 16 and IAS 38) The IASB published these amendments in May 2014. These amendments clarify the methods that can be used for the depreciation and amortisation of property, plant and equipment and intangible assets. The amendments come into force for financial years commencing on or after 1 January 2016. Initial application of these rules has not had any impact on the consolidated financial statements.

'Defined Benefit Plans: Employee Contributions' (Amendments to IAS 19) The amendments to IAS 19 were published in November 2013. Under certain circumstances, these amendments by the IASB allow contributions made by employees and third parties during the period in which the benefit was earned to be recognised as a reduction in the current service cost. Adoption of the amendments into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 July 2014 to financial years beginning on or after 1 February 2015. Initial application of the amendments has not had any material impact on the Group's financial position or financial performance.

'Investment Entities: Applying the Consolidation Exception' (Amendments to IFRS 10, IFRS 12 and IAS 28) The amendments were published in December 2014 and include clarifications relating to the application of the consolidation exception for investment entities. The amendments apply to reporting periods beginning on or after 1 January 2016. As the Company does not apply the exception for investment entities, initial application of the amendment has not had any impact on the consolidated financial statements.

'Accounting for Acquisitions of Interests in Joint Operations' (Amendments to IFRS 11) The IASB published these amendments in May 2014. The amendments clarify that the acquirer of an interest in a joint operation that constitutes a business, as defined in IFRS 3 'Business Combinations', is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendments apply to financial years beginning on or after 1 January 2016. They have not had any impact on the DEUTZ Group's consolidated financial statements.

Collective standard amending various IFRSs (2010–2012) The amendments were published in December 2013 and are primarily intended to clarify certain ambiguous provisions in the standards. Adoption of the amendments into EU law has resulted in the timing for mandatory initial application changing from the original date of 1 July 2014 to financial years beginning on or after 1 February 2015. Initial application of these amendments does not have a material impact on the consolidated financial statements.

Collective standard amending various IFRSs (2012–2014) The amendments published by the IASB in September 2014 primarily contain additional guidance for clarifying ambiguous provisions in standards. The amendments come into force for financial years commencing on or after 1 January 2016. Initial application of these amendments does not have a material impact on the consolidated financial statements.

2) Published standards, interpretations and amendments that have already become part of EU law but are not yet mandatory

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have published the following standards and amendments to standards that have already become part of EU law via the comitology procedure. However, the application of these standards was not yet mandatory in 2016 and DEUTZ has not opted to apply these interpretations or amendments to standards before the mandatory application date.

IFRS 9 'Financial Instruments' Following completion of the final phase of the project to replace IAS 39 'Financial Instruments: Recognition and Measurement', the IASB published the final version of IFRS 9 in July 2014. IFRS 9 introduces new requirements for the classification and measurement of financial assets. The standard defines the basis for this as the contractual cash flow characteristics and the objective of the business model under which the assets are being managed. The standard also includes new requirements for hedge accounting, with the specific aim of linking hedge accounting more closely to the risk management of entities. IFRS 9 also sets out a new impairment model based on expected default. The new standard comes into force for financial years beginning on or after 1 January 2018; early adoption is permitted. DEUTZ will apply IFRS 9 for the first time for the financial year beginning 1 January 2018 and is currently examining the potential impact of initial application of this standard on the Group's financial position and financial performance. It is planned to complete this examination phase by mid-2017. The initial findings do not lead us to believe there will be any material impact on the consolidated financial statements.

IFRS 15 'Revenue from Contracts with Customers' The IASB published IFRS 15 in May 2014. This new standard replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and the interpretations relating to them. One of the objectives of the new standard was to amalgamate the numerous requirements previously included in several standards and interpretations and to establish consistent underlying principles to be used for all categories of revenue-related transaction across all sectors. According to IFRS 15, the amount recognised as revenue is the amount expected in return for providing goods or services to customers. The point at which control over the goods or services is transferred to the customer determines the point in time at which or the period of time over which revenue is recognised. Full control can be transferred at a certain point in time or gradually over a period. In an amendment in September 2015, the IASB changed the original initial application date from 1 January 2017 to financial years beginning on or after 1 January 2018; early adoption is permitted. The Company will apply IFRS 15 for the first time for the financial year beginning 1 January 2018 taking the modified retrospective approach. Under this modified approach, the cumulative effect of applying IFRS 15 for the first time is recognised as an adjustment to the opening balance of retained earnings as at the date of initial application. The Company is currently examining the impact of the new standard on the consolidated financial statements. Initially, existing customer contracts will be examined for possible changes to their accounting treatment. It is planned to complete this analysis phase by mid-2017. In view of our business model and the analyses conducted so far, we do not currently believe there will be any material impact in terms of the total amount of revenue or the timing of its recognition. Currently, we also believe that the impact on the balance sheet from the possible recognition of new items, such as contract assets and liabilities, will be very limited. However, the Group does expect additional qualitative and quantitative disclosures in the notes to the financial statements.

3) Published standards, interpretations and amendments that have not yet been adopted by the EU

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have published the following standards and interpretations that have not yet been adopted by the EU and have not yet been applied by the DEUTZ Group.

IFRS 16 'Leases' The IASB published IFRS 16 in January 2016. This new standard replaces IAS 17 'Leases' and the interpretations relating to them (IFRIC 4, SIC 15 and SIC 27). IFRS 16 governs the recognition, measurement, presentation and disclosure of leases with the aim of ensuring that lessees and lessors provide relevant information about the impact of leases. As a result of this model, lessees must recognise assets and liabilities for all leases on the balance sheet, unless the lease term is twelve months or less or the underlying asset has a low value. The new standard comes into force for financial years beginning on or after 1 January 2019; early adoption is permitted if IFRS 15 has already been applied. DEUTZ will apply the new standard for the first time with effect from 1 January 2019 taking the modified retrospective approach. Under the modified retrospective approach, the prior-year comparative figures are not restated; instead, all adjustments may be recognised in the opening balance of retained earnings for the year of initial application. The Company is currently investigating the impact of the new standard on the consolidated financial statements. The first quantitative results from the analysis are expected at the end of 2017. The Group also anticipates more extensive qualitative and quantitative disclosures in the notes to the financial statements.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' The IASB published this interpretation in December 2016. IFRIC 22 clarifies that the date of a transaction, for the purpose of determining the exchange rate, is the initial recognition of the non-monetary prepayment asset or the non-monetary deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The interpretation comes into force for financial years commencing on or after 1 January 2018. However, it is not expected to have any material impact on the consolidated financial statements.

'Disclosure Initiative' (Amendments to IAS 7) The amendments to IAS 7 'Statement of Cash Flows' were published in January 2016. The aim of these amendments is to clarify IAS 7 and to improve the information about an entity's financing activities that is made available to users of financial statements. The amendments apply to financial years beginning on or after 1 January 2017.

'Recognition of Deferred Tax Assets for Unrealised Losses' (Amendments to IAS 12) The amendments to IAS 12 'Income Taxes' were published in January 2016. These amendments clarify a number of requirements regarding the recognition of deferred tax assets for unrealised losses. The amendments apply to financial years beginning on or after 1 January 2017. They are not expected to have any material impact on the DEUTZ Group's consolidated financial statements.

'Transfers of Investment Property' (Amendments to IAS 40) The amendments to IAS 40 'Investment Property' were published in December 2016. The amendments provide clarification regarding transfers to or from investment property. The amendments apply to financial years beginning on or after 1 January 2018. They are not expected to have any impact on the DEUTZ Group's consolidated financial statements.

'Classification and Measurement of Share-based Payment Transactions' (Amendments to IFRS 2) The amendments were published in June 2016 and serve to clarify the classification and measurement of certain transactions involving share-based payments. The amendments apply to financial years beginning on or after 1 January 2018. They are not expected to have any impact on the DEUTZ Group's consolidated financial statements.

'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (Amendments to IFRS 10 and IAS 28) The IASB issued these amendments in September 2014. They clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business as defined by IFRS 3 'Business Combinations'. The amendments have been postponed indefinitely owing to inconsistencies between the standards.

Collective standard amending various IFRSs (2014–2016) The amendments published by the IASB in December 2016 primarily serve to clarify ambiguous provisions in standards. The amendments relating to IFRS 12 come into force for financial years commencing on or after 1 January 2017. Other amendments are required to be applied from 1 January 2018. The initial application of these amendments is not expected to have a material impact on the Group's consolidated financial statements.

Significant estimates and assumptions

To a certain extent, the preparation of the consolidated financial statements in accordance with IFRS requires estimates and assumptions that have an impact on the recognition, measurement and reporting of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date and the reporting of income and expenses. Estimates and assumptions giving rise to a material risk in the form of adjustments to the carrying amounts of assets or liabilities over the next financial year are explained below. Adjustments to estimates are recognised in income when better knowledge becomes available.

Impairment of non-financial assets The DEUTZ Group conducts tests at each balance sheet date to determine whether there are any indications that non-financial assets may be impaired. In order to estimate the value in use, the management must estimate future cash flows expected to be derived from the asset or from the cash-generating unit and select an appropriate discount rate to determine the present value of these cash flows.

Deferred tax assets The DEUTZ Group is obliged to pay income taxes in various countries. It therefore needs to make estimates on the basis of which tax provisions and deferred taxes can be recognised. When determining the amount of deferred tax assets, the management must make judgements – which may involve material uncertainties – regarding the expected timing and amount of future taxable income as well as future tax planning strategies. DEUTZ mainly recognises deferred tax assets on losses carried forward. They are recognised for all unused tax loss carryforwards to the extent that it is probable that future taxable profit will be available against which the loss carryforwards can actually be set off. Planning forecasts over a period of five years are used to determine the future taxable profit that is likely to be available.

As at 31 December 2016, the carrying amount of deferred tax assets recognised in respect of tax loss carryforwards amounted to €66.9 million (31 December 2015: €68.3 million). Further details can be found under Note 16 on page 87 et seq.

Pension benefits The expense for defined benefit plans is determined using actuarial calculations. These actuarial calculations are based on assumptions regarding discount rates, future increases in wages and salaries, staff turnover, mortality and future increases in pensions. These estimates are subject to material uncertainty owing to the long-term nature of these plans.

Because of changes in economic and market conditions, the costs and liabilities actually incurred may differ significantly from the estimates made on the basis of actuarial assumptions. The rate of pension and salary increases, the longevity of those entitled to pension benefits and the discount rate used can have a material impact on the amount of the defined benefit obligation and, consequently, on future pension costs.

Development expenditure is capitalised in accordance with the accounting policies described below. Management makes assumptions about the amount of future cash flows expected to be generated from the development projects, the discount rates to be applied and the period over which the cash is expected to flow into the Company. As at 31 December 2016, the carrying amount of capitalised development expenditure was €139.8 million (31 December 2015: €165.7 million).

Pending or potential legal disputes DEUTZ AG and other companies in the DEUTZ Group are subject to a variety of regulations under tax, competition and patent law as well as to other legal and statutory requirements. Existing and potential legal disputes are recorded and analysed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and an appropriate amount is recognised in the risk provisions in the accounts. At present, it is not possible to predict the outcome of pending cases with any degree of certainty beyond the provisions already recognised. We do not expect them to have a significantly adverse impact on the DEUTZ Group's financial position or financial performance. The overall position as regards the legal risks facing the DEUTZ Group is explained in more detail in Note 28 on page 111.

BASIS OF CONSOLIDATION

All subsidiaries, joint ventures and associates are included in the consolidated financial statements.

Subsidiaries are all entities directly or indirectly controlled by DEUTZ AG. Subsidiaries are consolidated from the point at which the parent company acquires control. Consolidation ends when the parent company no longer has control. In addition to DEUTZ AG, the consolidated financial statements include seven German subsidiaries (2015: six) and nine foreign subsidiaries (2015: nine).

Having previously been unconsolidated for reasons of materiality, the subsidiary Ad. Strüver KG (GmbH & Co.), Hamburg, was included in the consolidated financial statements of DEUTZ AG with effect from 1 January 2016. The company was included in the consolidated entities of DEUTZ AG again in view of a significant transaction in the second half of 2016. Ad. Strüver KG (GmbH & Co.), Hamburg, in which DEUTZ AG has an interest, concluded a contract for the disposal of a building lease for a plot of land that is no longer used for production purposes. The contract came into force on 4 July 2016. Transfer of the use and encumbrances takes place on 1 February 2017 and the sale price agreed is €10.5 million. The consolidation has not had a material effect on the Group's financial position or financial performance because the company has not been operational for approximately ten years. The company's losses, which were largely accrued as a result of ceasing production, had already been reported in the consolidated financial statements via DEUTZ AG or DEUTZ Beteiligung GmbH by recognising impairment losses on the carrying amount of the equity investment and on receivables due from the company. The impact of the changes to the basis of consolidation on the Group's financial performance in 2016 amounted to minus €0.2 million. There was no material impact on the Group's financial position in 2016.

In addition, the subsidiary DEUTZ (SHANGHAI) INTERNATIONAL TRADE Co., Ltd. which has its registered office in Shanghai, China, was included in the consolidated financial statements of DEUTZ AG for the first time in the second half of 2016. The capital contribution to this newly founded company of RMB 5.0 million (equivalent to €664 thousand) was paid in August 2016. DEUTZ AG holds 100 per cent of the voting shares in the company. Inclusion of the company in the consolidated financial statements for the first time had no material impact on the financial position or financial performance of the DEUTZ Group because the company is only at the development phase.

By contrast, the subsidiary DEUTZ Engine (Shandong) Co., Ltd., Linyi, China, was deconsolidated with effect from 31 December 2016 due to its lack of materiality for the consolidated financial statements. This company no longer has any operational or strategic significance to the DEUTZ Group and is currently being wound up. Deconsolidation had the following effects on the consolidated financial statements:

€ million	
Financial position	
Cash and cash equivalents	–2.5
Other receivables and assets	–2.8
Sundry financial and other assets (addition of equity investment)	+2.0
Other liabilities	–0.3
Equity	–1.5
thereof non-controlling interests	–4.4
thereof equity attributable to shareholders of DEUTZ AG	+2.9
Financial performance	
Net income	–1.4
Other income	–0.1
Earnings per share	–0.01

The loss of €1.4 million arising from the deconsolidation of DEUTZ Engine (Shandong) Co., Ltd., was recognised under other operating expenses.

Page 119 of the annex to the notes to the financial statements lists the shareholdings of DEUTZ AG as at 31 December 2016.

PRINCIPLES OF CONSOLIDATION

The separate financial statements of the individual entities included in the consolidated financial statements have been prepared using uniform accounting policies in accordance with the regulations on consolidation. The consolidated financial statements comprise the financial statements of DEUTZ AG and of its subsidiaries prepared each year for the twelve months ended 31 December.

The acquisition method has been used to account for business combinations since 1 January 2010. The acquisition cost is measured at the fair value of the assets transferred, the liabilities incurred or assumed (including conditional liabilities) and of the equity instruments issued at the acquisition date, irrespective of the amount of any non-controlling interests. For each business combination, the Group decides whether to measure the non-controlling interest in the acquiree at fair value (full goodwill method) or at the proportionate fair value of the assets acquired and the liabilities assumed. Acquisition-related costs are expensed as incurred.

The acquisition method was used to account for acquisitions between the transition to accounting based on IFRS on 1 January 2005 and 31 December 2009. Under this method, the carrying amount of the investment was offset against the DEUTZ Group's proportionate share of equity in the consolidated subsidiary remeasured at fair value on the acquisition date. Transaction costs directly attributable to the acquisition constituted some of the acquisition-related costs.

The non-controlling interest is the share of net profit/loss and net assets not attributable to the DEUTZ Group. The Shandong Changlin Machinery Group's holding of 30 per cent of the voting shares in DEUTZ Engine (Shandong) Co., Ltd., Linyi, China, had been reported as a non-controlling interest as at 31 December 2015. Following deconsolidation of this company at the end of 2016, there were no non-controlling interests as at 31 December 2016.

Income and expenses, receivables and payables, and intercompany profits and losses generated between the consolidated entities are eliminated unless they are of no material significance.

JOINT VENTURES AND ASSOCIATES

Investments in joint ventures and associates are accounted for using the equity method. Under the equity method, investments in an associate or joint venture are recognised on the balance sheet at cost plus any changes in the DEUTZ Group's share of the entity's net assets that have occurred since the acquisition. The goodwill related to the associate or joint venture is included in the carrying amount of the investment and is not amortised. The income statement includes the DEUTZ Group's share of the profit or loss generated by the associate or joint venture. Unless they are material, gains and losses on transactions between the Group and its associates or joint ventures are eliminated. Changes recognised directly in the equity of the associate or joint venture are recognised by the DEUTZ Group in the amount of its investment and, as such, are appropriately presented in the statement of changes in equity. With one exception, the financial statements of the associates and joint ventures are prepared to the same balance sheet date as the financial statements for the parent. Interim financial statements have not been prepared for reasons of materiality. Where required, figures are restated in line with the uniform accounting policies throughout the DEUTZ Group.

CURRENCY TRANSLATION

The items in the financial statements of each individual entity in the DEUTZ Group are measured in the currency that corresponds to the currency of the primary economic environment in which the entity operates (functional currency). Transactions denominated in foreign currency are translated into the functional currency using the relevant exchange rates on the date of the transaction. Subsequently they are translated on every balance sheet date using the closing rate. All currency translation differences are recognised in profit or loss unless they are in connection with qualified cash flow hedges, in which case they are recognised in other comprehensive income.

With the exception of equity, balance sheet items in separate financial statements denominated in foreign currency are translated into the functional currency of the DEUTZ Group (euros) at closing rates. Income and expense items – including net income or loss – are translated at the average rates for the year. Equity – with the exception of net income or loss – is translated at the prevailing historical closing rates.

Differences arising from the translation of equity at historical rates and the translation of net income or loss at average rates for the year are reported in other comprehensive income in a separate item.

The main exchange rates used for currency translation purposes are shown in the following table (€1 translated into foreign currencies):

		Average rates		Closing rates at 31 Dec	
		2016	2015	**2016**	2015
USA	USD	1.10	1.10	1.05	1.09
UK	GBP	0.82	0.72	0.86	0.73
China	CNY	7.34	6.95	7.32	7.06
Australia	AUD	1.49	1.48	1.46	1.49
Morocco	MAD	10.84	10.80	10.65	10.75
Russia	RUB	73.31	68.77	64.30	80.67

ACCOUNTING POLICIES

Significant accounting policies used to prepare these consolidated financial statements are described below.

REVENUE RECOGNITION

Revenue generated by the sale of engines and services comprises the fair value received excluding VAT, discounts and price reductions.

Revenue and other income is recognised as follows:

Revenue from the sale of engines Revenue from the sale of engines is recognised once a DEUTZ Group entity has delivered to a customer and the risks and rewards have passed to the customer. Estimates of future price reductions are covered by provisions and deducted from revenue.

Revenue generated by services Revenue generated by services is recognised at the time the service is provided.

Income from the awarding of engine licences and any related project business This income is either deferred and recognised pro rata temporis in accordance with the substance of the relevant agreements or recognised when risks and rewards have been transferred.

Interest income, dividends and other income Interest income is recognised pro rata temporis using the effective interest method. Dividend income is recognised at the time the right to receive the payment arises. Other income is recognised according to contractual agreement on the transfer of risks and rewards.

BORROWING COSTS

Borrowing costs that can be directly attributed to the construction or manufacture of an asset for which a substantial period is required to bring the asset to its intended usable condition are capitalised as part of the costs of the relevant asset. All the other borrowing costs are expensed as incurred. Borrowing costs are the interest and other costs incurred by a company in connection with borrowing funds.

ADDITIONAL DISCLOSURES

In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT adjusted for exceptional items, which it uses for internal purposes to gauge the profitability of its business. Such exceptional items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities that are unlikely to recur. We use this KPI internally so that we can compare the Company's operating performance over time. There were no exceptional items in 2016 or 2015.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognised at cost and, if depreciable, less any depreciation on a straight-line basis and any additional impairment losses. Cost comprises the purchase price and any directly attributable costs incurred to bring the asset to the required location and working condition.

The costs of conversion of property, plant and equipment constructed internally comprise directly attributable costs, pro rata material and production overheads as well as administrative expenses related to production or delivery of the service.

Subsequent costs are added to the carrying amount of the asset concerned as incurred, provided that the recognition criteria are satisfied. Repair and maintenance costs are expensed as incurred.

The depreciation period is based on the expected useful life of the asset. Land is not depreciated.

Straight-line depreciation is based on the following useful lives for the main asset categories:

	Useful life (years)
Buildings and grounds	15–33
Technical equipment and machines	10–15
Other equipment, furniture and fixtures	3–10

Residual carrying amounts, useful lives and depreciation methods are reviewed at the end of each year and adjusted where appropriate.

An item of property, plant or equipment is derecognised either on disposal or if no further economic benefit is expected from further use or sale of the asset. Gains or losses arising from the derecognition of the asset are calculated as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement in the period in which the asset is derecognised.

INTANGIBLE ASSETS

Intangible assets are measured at cost. The cost of purchase or conversion includes directly attributable costs. The cost of conversion also includes a proportion of overheads and borrowing costs for long-term projects provided the recognition criteria are met. In subsequent periods, intangible assets are reported at cost less amortisation on a straight-line basis and any additional impairment losses. Investment grants from customers are deducted from cost. The useful lives of both purchased and internally generated intangible assets are limited. The amortisation expense and impairment losses are reported in the income statement accordingly.

The following principles are applied:

Internally generated intangible assets The accounting treatment of internally generated intangible assets is based on an implemented development process with defined milestones. During this process, the development costs for the products are capitalised provided that

- they are technically and commercially feasible,
- a future economic benefit is likely,
- there is the intention to complete their development and sufficient resources are available to do so, and
- the costs of development can be reliably determined.

The review of whether these criteria are met takes place in connection with the achievement of defined milestones in the development process. Development projects at DEUTZ relate almost exclusively to the development of new engine series. The fact that these development projects are technically feasible and will actually be completed is borne out by a multitude of evidence from the past. Until this point, the development and research costs incurred are recognised in the income statement in the period in which they are incurred. As a rule, completed development projects are amortised on a straight-line basis over the expected production cycle of three to nine years.

As at 31 December 2016, the material, completed development projects had the following remaining useful lives:

Engine series 12.0/16.0	3 years
Engine series 7.8	9 years
Engine series 6.1	3 years
Engine series 4.1	4 years
Engine series 3.6	4 years
Engine series 2.9	5.5 years

The useful lives and amortisation methods for completed development projects are reviewed at every year-end, if not more frequently. If any changes in their useful lives are required, they are treated as changes in accounting estimates.

Other intangible assets These are measured at amortised cost and amortised on a straight-line basis over their estimated useful life of three to ten years.

Gains or losses arising from the derecognition of intangible assets are the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement in the period in which the asset is derecognised.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each balance sheet date the DEUTZ Group carries out tests to establish whether there are any indications that an asset may be impaired. An impairment test is carried out at least once a year on intangible assets that are not yet available for use.

Impairment is determined by comparing the carrying amount with the recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If future cash inflows cannot be allocated to an individual asset separately from cash flows generated independently by other assets, the impairment test is applied to the cash-generating unit that includes the asset concerned. When impairment tests are conducted, assets are aggregated into cash-generating units at the lowest-possible level at which cash inflows can largely be independently identified.

Value in use is calculated by discounting estimated future cash flows to their present value. The calculation uses a discount rate that reflects current market expectations in respect of the time value of money and the risks inherent in the asset or cash-generating unit. The cash flows used in the calculation are derived and extrapolated from operational planning (five-year period). If the reasons for previously recognised impairment losses no longer exist, these impairment losses are reversed.

In 2016, lower unit sales forecasts gave rise to indications of impairment ('trigger events') on some property, plant and equipment and some completed internally generated intangible assets. However, the impairment tests carried out did not identify a need to recognise impairment losses.

The estimates and assumptions used in the impairment tests are based on projections, which by their nature are subject to uncertainty, particularly with regard to future prices and volumes. Adjustments to the estimates made, e.g. due to unexpectedly poor economic conditions, could result in an impairment loss, especially in the case of individual engine series.

GOVERNMENT GRANTS

Government grants are recognised when there is sufficient certainty that the associated conditions will be fulfilled and the grants will actually be awarded. The DEUTZ Group deducts government grants relating to purchases of non-current assets from the cost of the respective asset. The amount of depreciation and amortisation is based on the cost of purchase after deduction of such grants. In the case of an interest-free government loan that has been received, the value of the interest benefit has been quantified in accordance with the provisions in IAS 39. The loan has been measured at fair value and the interest benefit recognised as deferred income.

INCOME TAXES

Deferred taxes Deferred taxes are recognised using the liability method for temporary differences between the carrying amount of an asset or a liability in the consolidated balance sheet and its tax base as at the reporting date as well as for tax loss and interest carryforwards.

Deferred tax assets are recognised to the extent that sufficient future taxable income is likely to be generated over the planning period against which the deductible temporary differences and the as yet unused tax loss carryforwards can be offset.

Deferred tax liabilities that arise from temporary differences in connection with investments in subsidiaries, joint ventures and associates are always recognised unless the timing of the reversal of the temporary differences can be controlled and it is unlikely that the temporary differences will reverse in the foreseeable future.

Deferred taxes relating to items recognised in other comprehensive income are likewise recognised in other comprehensive income and not in the income statement.

Deferred tax assets and liabilities are netted if the DEUTZ Group is entitled to have the current tax assets offset against tax liabilities and if the deferred taxes relate to income taxes levied by the same tax authority.

Deferred taxes are recognised at the rates anticipated on recognition of the asset or liability. The anticipated tax rate is the rate that has already been enacted or announced at the balance sheet date, provided announcement of the tax rate has the substantive effect of actual enactment.

Current tax expense Current income taxes for the current period and for previous periods are recognised at the amount that is expected to be paid to (or recovered from) the tax authorities or has already been paid. The tax amount is calculated on the basis of tax rates and tax legislation enacted or substantively enacted as at the relevant balance sheet date.

INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price achievable in the ordinary course of business less estimated costs still to be incurred.

The cost of raw materials and consumables as well as bought-in and spare parts is calculated using weighted average purchase prices.

Work in progress and finished goods are measured at the cost of conversion, which includes production materials and production wages as well as a proportion of material and production overheads.

Additional write-downs are applied to cover risks resulting from inventories' period of storage and impaired usability as well as contract-related losses.

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets are classified as 'held for sale' and recognised at the lower of their carrying amount and their fair value less costs to sell if their carrying amount essentially derives from their sale rather than from their continued use.

FINANCIAL ASSETS

In the DEUTZ Group, financial assets within the meaning of IAS 39 can be in any of the following categories and are classified accordingly:

- financial assets designated at fair value through profit or loss,
- loans and receivables, or
- available-for-sale financial assets.

On initial recognition, financial assets are measured at fair value. In the case of financial assets other than those classified as at fair value through profit or loss, transaction costs directly attributable to the acquisition of the assets are also included.

Financial assets are classified in one of the measurement categories on initial recognition. Assets may be reclassified if this is permitted and necessary.

Except in the case of held-for-trading financial assets, all regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered to or by DEUTZ. Held-for-trading financial assets are recognised on the trade date, i.e. the date on which the DEUTZ Group enters into the obligation to buy or sell the asset. Regular way purchases and sales are purchases or sales of financial assets that provide for the delivery of the asset within a period determined by market regulations or conventions.

Financial assets at fair value through profit or loss In the DEUTZ Group, financial assets designated as at fair value through profit or loss include held-for-trading financial assets. To date, the DEUTZ Group has not made use of the option to designate financial assets as at fair value through profit or loss on initial recognition.

Derivatives, including separately recognised embedded derivatives, are classified as held for trading unless they are derivatives designated as hedging instruments and are determined to be effective. Gains and losses on financial assets held for trading are recognised in the income statement. At the time the DEUTZ Group first becomes a party to a contract, it determines whether an embedded derivative needs to be accounted for separately from the host contract. This decision is only reassessed if there is a substantial amendment to the terms of the contract and this amendment results in a significant change to the cash flows that would otherwise have been derived from the contract.

Loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. This category comprises trade receivables as well as other receivables and assets. They arise when the DEUTZ Group provides money, goods or services directly to a customer or other debtor. They are classified as current assets, except for those that do not fall due until twelve months or more after the balance sheet date, in which case they are reported as non-current assets. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any necessary write-downs. A gain or loss is recognised in profit or loss when the loan or receivable is derecognised or written down, and through the amortisation process.

Available-for-sale financial assets Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in one of the other categories stipulated in IAS 39. After initial measurement, available-for-sale financial assets are measured at fair value. Financial assets whose fair value cannot be determined either using generally accepted measurement methods (e.g. discounted cash flow) or from their market prices are recognised at amortised cost. Unrealised gains and losses are recognised in other comprehensive income. If a financial asset in this category is derecognised or written down, any cumulative gains or losses previously recognised in other comprehensive income are reclassified to the income statement.

IMPAIRMENT OF FINANCIAL ASSETS

At every balance sheet date, financial assets (with the exception of financial assets at fair value through profit or loss) are subjected to an impairment test to establish whether there are any indications of impairment (for example, substantial financial difficulties on the part of the debtor, significant probability of insolvency proceedings against the debtor, the disappearance of an active market for the financial asset, significant changes in the technological, economic, legal and/or market environment in which the issuer operates, a sustained fall in the fair value of the financial asset below amortised cost).

Financial assets accounted for at amortised cost If there are objective indications that a financial asset accounted for at amortised cost is impaired, the amount of the impairment loss is determined as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (with the exception of estimated future loan defaults that have not yet occurred), the discount rate being the original effective interest rate for the financial asset, i.e. the effective interest rate determined on initial recognition. The impairment loss is recognised in the income statement.

If the amount of this impairment loss is found to be lower in subsequent reporting periods and this decrease can be attributed objectively to factors occurring after the recognition of the impairment loss, the previously recognised impairment loss is reversed. However, the new carrying amount of the asset must not exceed what the amortised cost would have been at the time the impairment loss is reversed if the impairment loss had not been recognised. The reversal of the impairment loss is recognised in the income statement.

In the case of trade receivables, if there are objective indications that not all due and payable amounts will be received in accordance with the originally agreed invoicing terms and conditions (for example, insufficient creditworthiness on the part of the debtor, dispute regarding the existence or amount of the receivable, legal reasons preventing the enforcement of the receivable, etc.) an impairment loss is recognised on a valuation allowance account. Receivables classified as uncollectible are then derecognised.

If other receivables or assets are found to be impaired, a direct write-down is applied to the relevant carrying amounts.

Available-for-sale financial assets If an available-for-sale financial asset is impaired, an amount equal to the difference between the cost and the current fair value (less any impairment losses on that asset already recognised in the income statement at an earlier point) is reclassified from other comprehensive income to the income statement. Reversals of impairment losses on equity instruments classified as available for sale are not recognised in the income statement. Impairment losses related to available-for-sale equity instruments that are not publicly traded and that are recognised at cost must not be reversed. The reversal of impairment losses on debt instruments classified as available for sale are recognised in the income statement if the increase in fair value can be objectively related to an event that occurred after the impairment loss was recognised in the income statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, short-term deposits with an original term of up to three months, and credit balances held with banks.

FINANCIAL LIABILITIES

In the DEUTZ Group, financial liabilities within the meaning of IAS 39 can be in either of the following categories:

- financial liabilities at fair value through profit or loss, or
- other financial liabilities.

Financial liabilities at fair value through profit or loss In the DEUTZ Group, the group of financial liabilities at fair value through profit or loss includes held-for-trading financial liabilities. To date, the DEUTZ Group has not made use of the option to designate financial liabilities as at fair value through profit or loss on initial recognition.

Derivatives, including separately recognised embedded derivatives, are classified as held for trading unless they are derivatives designated as hedging instruments and determined to be effective. If the fair value of these derivatives is negative, they are recognised under financial liabilities. Gains and losses on financial liabilities held for trading are recognised in the income statement.

Other financial liabilities in the DEUTZ Group for the most part comprise the following:

- financial debt (liabilities to banks),
- trade payables and
- other liabilities.

Other financial liabilities are classified as current unless the DEUTZ Group does not have the right to settle the liability until at least twelve months after the balance sheet date.

Other financial liabilities are initially recognised at their fair value including transaction costs. They are subsequently measured at amortised cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

DEUTZ only uses derivative financial instruments (interest-rate and currency derivatives) for hedging purposes as part of its business operations, in particular to reduce foreign currency risk in forecast transactions involving foreign currencies and to reduce interest-rate risk through the use of interest-rate swaps.

Derivatives are initially recognised at their fair value on the day they are entered into and are subsequently measured at the fair value prevailing at the time. The fair value of derivatives corresponds to the present value of estimated future cash flows. The fair value of currency forwards is based on the forward exchange rate as at the balance sheet date.

Changes in the fair value of non-hedging derivatives are immediately recognised in the income statement.

Cash flow hedges Forecast transactions (cash flows) in foreign currency and interest-rate risk are hedged using cash flow hedges. The effective portion of the changes in the fair value of derivatives designated as cash flow hedges is recognised in other comprehensive income. The ineffective portion of the changes in fair value is reported in the income statement under other income or other expenses.

The changes in fair value reported in the reserve for cash flow hedges are reclassified to the income statement in the period in which the hedged item is recognised in income.

The market values of derivatives designated as cash flow hedges are stated in Note 26. Changes in the cash flow hedge reserve are reported under a separate item in other comprehensive income (fair value reserve).

PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The occupational pension scheme offered by the DEUTZ Group takes account of the relevant legislation in various countries and the benefits that each company provides for its staff.

Occupational pensions take the form of defined benefit pension plans, which are funded by the recognition of pension provisions. Since pension plans in Germany were closed to new members in 1995, employees in Germany can no longer acquire any further employer-funded pension entitlements. Currently, therefore, existing pension entitlements are simply increased each year by unwinding the discount applied to calculate the present value of the obligation, or they are paid out. Besides entitlements to an employer-funded pension, employees in Germany can build up an employee-funded pension by participating in a deferred compensation plan. There is one funded pension plan in the UK (branch of DEUTZ AG), and the subsidiaries in the US and France have pension liabilities. The pension plans outside Germany are employer-funded entitlements.

The Group's liabilities arising from employer-funded defined benefit pension plans are calculated separately for each plan using actuarial principles. First, the pension benefits vested in earlier periods and in the current period are estimated. The next step is to discount these benefits using the projected unit credit method. The resulting present value represents the defined benefit obligation. The fair value of the plan asset is then deducted from the defined benefit obligation to determine the net liability to be reported on the balance sheet.

The interest rate used to discount the estimated pension benefits is determined using the yields available in the market on each valuation date for investment-grade, fixed-income corporate paper. The currency and terms to maturity of the underlying corporate paper match the currency and predicted duration of the post-retirement pension liabilities to be met.

The net interest cost is calculated by multiplying the net liability at the beginning of the reporting period by the interest rate used to discount the pension obligations at the beginning of the period.

The effects of the revaluation include the actuarial gains and losses on the valuation of the gross defined benefit obligation and the difference between the actual return on plan assets and the typical return on plan assets assumed at the beginning of the period when calculating the net interest cost.

While the revaluation effects are recognised in other comprehensive income, the net interest cost and the current service cost are reported as gains or losses in the reporting period. Net interest cost is reported in operating profit.

The calculation of the individual cost components in the net liability to be reported on the balance sheet on each reporting date is based on a report by a qualified actuary.

In the case of the employee-funded deferred compensation plan, the Company has taken out a reinsurance policy with a life insurance company based on the amount of salary contribution and undertakes to pay a pension based on the guaranteed capital that has been underwritten. The present value of the benefit obligation corresponds to the fair value of the entitlements to reinsurance cover on the basis of the asset values calculated by the insurer. For the purposes of recognition on the balance sheet, the present value of the benefit obligation is offset against the fair value of the entitlements to reinsurance cover in an equal amount.

As well as defined benefit pension plans, there are also **defined contribution pension plans** (e.g. direct insurance policies). The mandatory contributions are immediately recognised as staff costs. In this case, the recognition of provisions is not required because the DEUTZ Group has no obligation apart from the obligation to pay premiums.

OTHER PROVISIONS

Other provisions are recognised if there are legal or constructive obligations towards third parties that arise from past events and are likely to result in cash outflows. Furthermore, it must be possible to estimate the obligation reliably. Provisions are recognised at their settlement value calculated at the balance sheet date and take account of projected cost increases. Non-current provisions are discounted. Provisions for warranty obligations are recognised when products are sold or when new warranties are initiated. The measurement of potential warranty liabilities is based primarily on historical experience.

CONTINGENT LIABILITIES

Contingent liabilities are potential obligations that arise from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events that, however, are beyond the control of the DEUTZ Group. Furthermore, present obligations may constitute contingent liabilities if it is not probable that an outflow of resources will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made.

NOTES TO THE INCOME STATEMENT

1. REVENUE

The table below gives a breakdown of revenue for the DEUTZ Group:

€ million	2016	2015
Engines	972.9	969.0
Service	287.3	278.4
Total	**1,260.2**	**1,247.4**

The breakdown of revenue by segment and region is shown in the notes on segment reporting on page 98 et seq.

2. COST OF SALES

The cost of sales comprises the following cost items:

€ million	2016	2015
Cost of materials	712.0	723.8
Staff costs	165.0	164.8
Depreciation on property, plant and equipment	46.4	50.8
Other cost of sales items	118.2	115.4
Total	**1,041.6**	**1,054.8**

3. RESEARCH AND DEVELOPMENT COSTS

The table below gives a breakdown of research and development costs:

€ million	2016	2015
Cost of materials	10.1	7.6
Staff costs	29.8	29.8
Depreciation and amortisation	39.9	51.9
Own work capitalised and reimbursements	–8.8	–19.7
Other research and development costs	6.5	6.7
Total	**77.5**	**76.3**

4. SELLING EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses amounted to €68.0 million in the year under review (2015: €68.3 million). General and administrative expenses came to €36.7 million (2015: €36.5 million). Both the selling expenses and the general and administrative expenses predominantly consist of staff costs.

5. OTHER OPERATING INCOME

€ million	2016	2015
Foreign currency gains	7.1	13.3
Income from recharged costs and services	5.3	6.2
Income from the derecognition of liabilities	0.9	0.5
Income from the reversal of provisions	0.8	1.1
Income from the disposal of non-current assets	0.6	0.3
Income from the measurement of derivatives	0.4	1.4
Income from the disposal of investments and deconsolidation	–	3.9
Sundry other income	2.6	2.6
Total	**17.7**	**29.3**

The decrease in other operating income was largely the result of smaller foreign currency gains.

6. OTHER OPERATING EXPENSES

€ million	2016	2015
Expenses for pensions and other post-employment benefits	6.6	4.4
Other expenses from the adjustment of provisions	5.4	3.5
Foreign currency losses	3.8	13.6
Other cost of fees, contributions and advice	2.5	1.5
Expenses in connection with the measurement of derivatives	0.8	1.2
Rental and lease expenses	0.9	0.7
Sundry other expenses	6.7	5.7
Total	**26.7**	**30.6**

The decline in other operating expenses was attributable to far lower foreign currency losses. The expenses for pensions and other post-employment benefits primarily consist of the net interest cost for provisions for pensions and other post-retirement benefits and of the severance payment in relation to Dr Leube's early departure from the Company on 31 December 2016.

7. PROFIT/LOSS ON EQUITY-ACCOUNTED INVESTMENTS AND OTHER INVESTMENT INCOME

€ million	2016	2015
Profit/loss on equity-accounted investments		
Income from equity-accounted investments	0.6	0.7
Expenses relating to equity-accounted investments	–5.7	–7.0
Total	**–5.1**	**–6.3**
Other investment income	**1.1**	**1.0**
Total	**–4.0**	**–5.3**

Income from equity-accounted investments consisted of DEUTZ AG's share in the profits of its associate D.D. Power Holdings (Pty), South Africa.

The expenses relating to equity-accounted investments were attributable to the share of the loss of the joint venture DEUTZ (Dalian) Engine Co., Ltd., Dalian, China.

As in the previous year, other net investment income related to profits transferred by DEUTZ Sicherheit GmbH, Cologne.

8. INTEREST EXPENSES, NET

€ million	2016	2015
Interest income on credit balances with banks	–	0.1
Other interest income	0.3	0.7
Interest income	**0.3**	**0.8**
Interest paid on liabilities to banks	–2.5	–2.9
Interest paid on sales of receivables	–0.7	–1.1
Other interest expense and similar charges	–0.6	–0.8
Interest expense and similar charges (finance costs)	**–3.8**	**–4.8**
Interest expenses, net	**–3.5**	**–4.0**

In 2016, borrowing costs of €0.1 million were capitalised. No borrowing costs had been capitalised in 2015.

9. TAXES

Income taxes The following table gives a breakdown of income taxes:

€ million	2016	2015
Current tax expense	9.3	5.7
thereof unrelated to the reporting period	–0.3	–0.6
Deferred taxes	–5.4	–8.3
thereof from temporary differences	–8.1	–7.5
thereof from loss carryforwards	2.7	–0.8
Total income taxes	**3.9**	**–2.6**

The current income tax expenses of €9.3 million predominantly related to additions to provisions for anticipated tax payments on current income generated by Group companies in 2016.

The deferred tax income included income of €8.1 million arising from temporary differences (2015: €7.5 million). This resulted, in particular, from the reduction of deferred tax liabilities in connection with the capitalisation of development expenditure under IFRS.

There are no income tax implications for DEUTZ AG arising from the distribution of dividends to shareholders by DEUTZ AG.

The tax reconciliation table shows the reconciliation from anticipated income taxes to effective taxes as shown in the income statement. Effective income taxes include current and deferred taxes. The applicable tax rate is 31.61 per cent (2015: 31.61 per cent) comprising corporation tax at 15 per cent, the solidarity surcharge (5.50 per cent of the corporation tax) and trade tax at 15.78 per cent based on an average assessment rate.

€ million	2016	2015
Net income before income taxes	**19.9**	**0.9**
Anticipated tax expense (+)/income (–)	6.3	0.3
Effect from trade tax add-backs and deductions	0.2	0.3
Tax rates outside Germany	0.3	–0.2
Changes arising from the recognition of deferred taxes on loss carryforwards and on temporary differences and the utilisation of loss carryforwards	–6.8	–2.6
Effect of non-deductible expenses	0.4	–0.4
Effect of consolidation adjustments	2.6	–
Effect of partnership's supplementary tax accounts	1.3	–
Share of profit (loss) of equity-accounted investments	1.8	2.1
Effect of tax-exempt income	–0.7	–0.8
Effects not related to the reporting period		
Prior-year tax payments	–0.2	–0.6
Deferred taxes resulting from prior-year adjustments	–1.2	–0.6
Other	–0.1	–0.1
Effective tax expense (+)/income (–)	**3.9**	**–2.6**
Effective tax rate (%)	19.6	–288.9

The change arising from the recognition of deferred taxes on loss carryforwards and on temporary differences and the utilisation of loss carryforwards was largely attributable to the utilisation of loss carryforwards in the reporting year.

10. EARNINGS PER SHARE

Earnings per share is calculated in accordance with IAS 33. The DEUTZ Group calculates basic earnings per share by dividing the net income attributable to its shares by the weighted average number of shares outstanding.

There were no dilutive effects in 2016 or 2015 because there are no exercisable options to convert financial instruments with equity components.

	2016	2015
Net income attributable to shareholders of DEUTZ AG (€ thousands)	16,558	5,345
Weighted average number of shares outstanding (thousands)	120,862	120,862
Earnings per share (€)	**0.14**	**0.04**

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

11. OTHER COMPREHENSIVE INCOME

Other comprehensive income comprises the elements of the statement of comprehensive income not reported in the income statement. The taxes resulting from other comprehensive income are shown in the following table:

€ million	2016			2015		
	Before taxes	**Taxes**	**After taxes**	Before taxes	Taxes	After taxes
Amounts that will not be reclassified to the income statement in the future	**–13.3**	**4.2**	**–9.1**	**4.6**	**–1.5**	**3.1**
Remeasurements of defined benefit plans	–13.3	4.2	–9.1	4.6	–1.5	3.1
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**–2.1**	**0.7**	**–1.4**	**4.5**	**–0.6**	**3.9**
Currency translation differences	0.2	–	0.2	2.8	–	2.8
Effective portion of change in fair value from cash flow hedges	–2.3	0.7	–1.6	1.9	–0.6	1.3
Change in fair value of available-for-sale financial instruments	–	–	–	–0.2	–	–0.2
Other comprehensive income	**–15.4**	**4.9**	**–10.5**	**9.1**	**–2.1**	**7.0**

In 2016, losses of €32 thousand on cash flow hedges (2015: losses of €8.1 million) recognised in other comprehensive income during the year (prior to the inclusion of deferred taxes) were reclassified to other operating expenses or other operating income in the consolidated income statement.

NOTES TO THE BALANCE SHEET

12. PROPERTY, PLANT AND EQUIPMENT

Gross figures Cost of purchase/conversion	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
€ million					
Balance at 1 Jan 2016	**205.3**	**537.6**	**239.8**	**23.1**	**1,005.8**
Currency translation differences	–	0.2	–	–0.2	–
Additions	9.1	16.2	16.3	7.7	49.3
Investment grants	–	–	–	–	–
Disposals	–2.0	–42.0	–7.3	–	–51.3
Changes to basis of consolidation	–	–	–2.0	–4.0	–6.0
Reclassifications	6.2	9.9	1.4	–17.5	–
Balance at 31 Dec 2016	**218.6**	**521.9**	**248.2**	**9.1**	**997.8**

Gross figures Depreciation and impairment	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
€ million					
Balance at 1 Jan 2016	**89.0**	**436.3**	**189.0**	**2.5**	**716.8**
Currency translation differences	–	0.1	–	–	0.1
Depreciation	5.3	24.8	18.7	–	48.8
Impairment	–	–	–	1.5	1.5
Disposals	–0.2	–42.0	–7.2	–	–49.4
Changes to basis of consolidation	–	–	–2.0	–4.0	–6.0
Reclassifications	–	–	–	–	–
Balance at 31 Dec 2016	**94.1**	**419.2**	**198.5**	**–**	**711.8**
Net carrying amount at 31 Dec 2016	**124.5**	**102.7**	**49.7**	**9.1**	**286.0**

Gross figures Cost of purchase/conversion	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
€ million					
Balance at 1 Jan 2015	**199.2**	**536.4**	**240.5**	**9.7**	**985.8**
Currency translation differences	0.1	0.6	0.4	0.2	1.3
Additions	6.0	11.6	14.5	19.1	51.2
Investment grants	–	–	–0.3	–	–0.3
Disposals	–0.8	–15.4	–16.0	–	–32.2
Reclassifications	0.8	4.4	0.7	–5.9	–
Balance at 31 Dec 2015	**205.3**	**537.6**	**239.8**	**23.1**	**1,005.8**

Gross figures Depreciation and impairment	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	**Total**
€ million					
Balance at 1 Jan 2015	**84.2**	**425.9**	**182.2**	**1.6**	**693.9**
Currency translation differences	0.1	0.3	0.2	0.1	0.7
Depreciation	5.4	25.2	21.0	–	51.6
Impairment	–	0.1	1.4	0.8	2.3
Disposals	–0.7	–15.2	–15.8	–	–31.7
Reclassifications	–	–	–	–	–
Balance at 31 Dec 2015	**89.0**	**436.3**	**189.0**	**2.5**	**716.8**
Net carrying amount at 31 Dec 2015	**116.3**	**101.3**	**50.8**	**20.6**	**289.0**

Additions to property, plant and equipment mainly related to the construction of the shaft centre in Cologne-Porz. There were also additions in connection with replacement investments in machinery and tools.

Impairment losses related to property, plant and equipment of our subsidiary DEUTZ Engine (Shandong) Co., Ltd., Linyi, China, which is being wound up. As there was no alternative use for it, the property, plant and equipment was written off in full. The company was finally deconsolidated at the end of the reporting year.

The disposals in connection with changes to the basis of consolidation resulted from the deconsolidation of DEUTZ Engine (Shandong) Co., Ltd., Linyi, China.

Government grants at our Spanish subsidiary were deducted from the cost of purchasing the property, plant and equipment. Total government grants recognised as at 31 December 2016 amounted to €1.4 million (31 December 2015: €1.9 million). In 2016, grants of €0.5 million (2015: €0.6 million) were reclassified to the income statement (as a reduction of the depreciation expense).

Purchase commitments for property, plant and equipment are described on page 111.

13. INTANGIBLE ASSETS

Gross figures Cost of purchase/conversion	Internally generated intangible assets, completed	Internally generated intangible assets, in development	Other intangible assets	**Total**
€ million				
Balance at 1 Jan 2016	**411.9**	**5.6**	**120.0**	**537.5**
Currency translation differences	–	–	0.2	0.2
Additions	1.6	7.5	3.6	12.7
Disposals	–1.8	–	–0.2	–2.0
Balance at 31 Dec 2016	**411.7**	**13.1**	**123.6**	**548.4**

Gross figures Amortisation and impairment	Internally generated intangible assets, completed	Internally generated intangible assets, in development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2016	**246.9**	**4.9**	**109.1**	**360.9**
Currency translation differences	–	–	0.2	0.2
Amortisation	34.7	–	5.8	40.5
Disposals	–1.5	–	–0.2	–1.7
Balance at 31 Dec 2016	**280.1**	**4.9**	**114.9**	**399.9**
Net carrying amount at 31 Dec 2016	**131.6**	**8.2**	**8.7**	**148.5**

Gross figures Cost of purchase/conversion	Internally generated intangible assets, completed	Internally generated intangible assets, in development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2015	**404.5**	**–**	**122.5**	**527.0**
Currency translation differences	–	–	0.4	0.4
Additions	7.4	5.6	5.6	18.6
Investment grants	–	–	–0.3	–0.3
Disposals	–	–	–8.2	–8.2
Reclassifications	–	–	–	–
Balance at 31 Dec 2015	**411.9**	**5.6**	**120.0**	**537.5**

Gross figures Amortisation and impairment	Internally generated intangible assets, completed	Internally generated intangible assets, in development	Other intangible assets	Total
€ million				
Balance at 1 Jan 2015	**205.1**	**–**	**110.2**	**315.3**
Currency translation differences	–	–	0.4	0.4
Amortisation	39.3	–	6.7	46.0
Impairment	2.5	4.9	–	7.4
Disposals	–	–	–8.2	–8.2
Reclassifications	–	–	–	–
Balance at 31 Dec 2015	**246.9**	**4.9**	**109.1**	**360.9**
Net carrying amount at 31 Dec 2015	**165.0**	**0.7**	**10.9**	**176.6**

Other intangible assets mainly comprise grants for tool costs, licences, purchased development services and software.

Under internally generated intangible assets, the additions largely relate to the capitalisation of development expenditure relating to the development of new engines and the refinement of existing models.

14. EQUITY-ACCOUNTED INVESTMENTS

The shares held by the DEUTZ Group in associates and joint ventures, none of which are listed companies, are as follows:

€ million	2016	2015
1 Jan	**48.5**	**52.4**
Additions	–	–
Pro-rata profit/loss on equity-accounted investments	–5.1	–6.3
Disposals	–	–
Impairment	–	–
Other changes arising from measurement using the equity method	–1.7	2.4
31 Dec	**41.7**	**48.5**

A summary of further financial information about associates and joint ventures is provided in Note 27 'Interests in other entities'.

15. OTHER FINANCIAL ASSETS (NON-CURRENT)

€ million	31 Dec 2016	31 Dec 2015
Equity investments	2.3	0.2
Non-current securities	3.2	2.9
Cost of borrowing	0.9	1.2
Loans	–	1.3
Other	1.1	0.8
Total	**7.5**	**6.4**

Equity investments

The year-on-year increase was due to the deconsolidation of our subsidiary DEUTZ Engine (Shandong) Co., Ltd. at the end of the reporting year. The DEUTZ Group's 70 per cent stake in the company was recognised with a fair value of €2.0 million.

Non-current securities

This line item on the balance sheet includes securities in the form of equities and bonds. The securities are used to hedge the pension obligations of the Group company DEUTZ Corporation, Atlanta, USA.

Cost of borrowing

The cost of borrowing directly associated with the working capital facility is accounted for as a non-current asset and is recognised in the income statement in instalments over the capital commitment period. The financial debt (including the pro rata cost of borrowing) is recognised when the working capital facility is drawn down as a loan and is subsequently measured using the effective interest method.

16. DEFERRED TAXES, CURRENT TAX ASSETS AND LIABILITIES

At the balance sheet date, DEUTZ AG had unutilised tax losses carried forward of €921.9 million for corporation tax (2015: €950.6 million) and €1,039.3 million for trade tax (2015: €1,068.7 million). The figures disclosed in 2015 for tax loss carryforwards (corporation tax: €698.4 million; trade tax €787.6 million) were restated as a result of changes to the tax rules on the offsetting of losses.

Further tax loss carryforwards were also available to international companies in the Group.

The following table gives a breakdown of the deferred tax assets and liabilities and the current tax assets and liabilities reported on the balance sheet:

€ million	31 Dec 2016	31 Dec 2015
Non-current		
Deferred tax assets	79.9	69.1
Deferred tax liabilities	0.4	–
Current		
Current tax assets	0.8	4.3
Provision for income taxes	4.1	7.5
Income tax liabilities	0.5	0.5

In 2016, the deferred tax assets net of deferred tax liabilities amounted to €79.9 million. They were largely the result of capitalising deferred tax assets on tax losses carried forward and of temporary differences, particularly those between the carrying amount of provisions for pensions and other post-retirement benefits in the consolidated balance sheet and their tax base in the financial statements of DEUTZ AG. Deferred tax assets from items recognised in other comprehensive income amounted to €21.9 million for provisions for pensions and other post-retirement benefits and €1.0 million for measurement of cash flow hedges and interest rate derivatives.

The following table shows the breakdown of deferred tax assets and liabilities:

€ million	31 Dec 2016 Assets	31 Dec 2016 Liabilities	31 Dec 2015 Assets	31 Dec 2015 Liabilities
Intangible assets	–	44.2	–	52.4
Property, plant and equipment	10.0	3.3	10.8	3.3
Equity-accounted investments and financial assets	0.5	1.8	0.5	–
Inventories	11.3	0.1	10.9	0.1
Receivables and other assets	4.9	–	3.4	–
Pensions	26.0	–	24.0	–
Other liabilities	9.5	0.2	7.2	0.2
Tax loss carryforwards	66.9	–	68.3	–
Deferred taxes (gross)	**129.1**	**49.6**	**125.1**	**56.0**
Netting	49.2	49.2	56.0	56.0
Deferred taxes (net)	**79.9**	**0.4**	**69.1**	**–**

The tax asset in excess of deferred tax liabilities – for which tax planning indicates sufficient taxable profit will be available in future – amounted to €79.9 million (31 December 2015: €69.1 million). Of this total, €5.9 million was attributable to two Group companies that generated a loss in the reporting period or in the prior year.

The decrease in deferred taxes in respect of temporary differences, which was recognised in other comprehensive income, was €5.0 million at 31 December 2016 (31 December 2015: decrease of €1.4 million) and largely resulted from changes in provisions for pensions.

As at 31 December 2016, the DEUTZ Group had not recognised any deferred tax liabilities on temporary differences of €15.5 million (31 December 2015: €24.3 million) in respect of taxes on untransferred profits from subsidiaries, associates or joint ventures because the timing of the reversal of the differences can be controlled or the sums are mostly tax exempt and no material impact on taxes is expected in the near future.

Deferred tax assets are only recognised to the extent that sufficient future taxable income is likely to be generated over a certain planning period against which the as yet unused tax loss carryforwards can be offset. Consequently, as well as tax loss carryforwards on which deferred taxes have been recognised, there are loss carryforwards for which deferred taxes have not been recognised because the losses cannot be utilised. The following table shows the amounts and expiry dates of the tax loss carryforwards:

Loss carryforwards on which deferred taxes have not been recognised

€ million	**31 Dec 2016**	31 Dec 2015
Corporation tax/solidarity surcharge	733.2	756.7
Trade tax	840.2	859.9

Thereof: expiry periods for German and international loss carryforwards

€ million	**31 Dec 2016**	31 Dec 2015
Up to 5 years	–	–
6 to 9 years	–	–
Indefinite		
Corporation tax/solidarity surcharge	733.2	756.7
Trade tax	840.2	859.9

The figure disclosed in 2015 for loss carryforwards on which deferred taxes had not been recognised in full was restated, mainly as a result of changes to the tax rules on the offsetting of losses.

17. INVENTORIES

€ million	**31 Dec 2016**	31 Dec 2015
Raw materials, consumables, bought-in parts and spare parts	124.5	129.1
Work in progress	42.1	47.1
Finished goods	86.5	75.7
Total	**253.1**	**251.9**

Write-downs on raw materials, bought-in parts and spare parts totalled €1.4 million in the reporting year (2015: €5.3 million). As at 31 December 2016, the carrying amount of inventories written down to net realisable value was €82.1 million (31 December 2015: €78.7 million).

The following table shows the change in the valuation allowance account for inventories:

€ million	**2016**	2015
1 Jan	**30.4**	**26.1**
Changes	6.6	4.3
31 Dec	**37.0**	**30.4**

18. RECEIVABLES AND OTHER ASSETS

€ million	31 Dec 2016	31 Dec 2015
Trade receivables	118.0	103.6
Less write-downs	–4.5	–2.4
Trade receivables (net)	**113.5**	**101.2**
Other receivables and assets		
Receivables due from investments	3.1	0.9
thereof trade receivables	3.1	0.2
thereof other receivables	–	0.7
Advances paid	0.2	0.1
Receivables remaining after sale of receivables	6.5	3.1
Receivables arising from income tax assets	0.8	4.3
Receivables arising from other taxes	5.6	5.1
Sundry other receivables	21.1	19.0
Total	**37.3**	**32.5**

As at 31 December 2016, the volume of receivables sold under factoring agreements was €111.4 million (31 December 2015: €99.1 million). Essentially, all the opportunities and risks connected with title to the receivables that were sold were transferred to the factor. While the entire credit risk was transferred, a risk of late payment remains, but it is not material so the receivables were not reported in the consolidated financial statements of DEUTZ AG. The remaining exposure in respect of the receivables that have been assigned is largely limited to the administration and collection of these receivables. As at 31 December 2016, the Group had access to factoring lines totalling €160.0 million (31 December 2015: €196.0 million). They are revolving lines. In 2016, interest expense of €0.7 million (2015: €1.1 million) was recognised in connection with the sale of receivables.

As at 31 December 2016, the receivables sold were offset by receivables amounting to €6.5 million due from one factor (31 December 2015: €3.1 million). The fair value of these receivables was also €6.5 million (31 December 2015: €3.1 million). The risk arising from the factoring transaction was the credit risk of the factor, which was lower than the credit risk of the original debtors. The maximum downside risk as at 31 December 2016 was limited to the amount receivable of €6.5 million (31 December 2015: €3.1 million).

Trade receivables with a principal amount of €4.7 million were written down as at 31 December 2016 (31 December 2015: €11.7 million). The following table shows the change in the valuation allowance account:

€ million	31 Dec 2016	31 Dec 2015
Balance at 1 Jan	**2.4**	**5.0**
Additions	2.9	0.3
Utilised	–0.1	–2.4
Reversals	–0.7	–0.5
Balance at 31 Dec	**4.5**	**2.4**

If other receivables or assets are found to be impaired, a direct write-down is applied to the relevant carrying amounts. Total impairment losses of €17.6 million were recognised on receivables and other assets as at 31 December 2016 (31 December 2015: €28.1 million).

19. CASH AND CASH EQUIVALENTS

As at 31 December 2016, cash and cash equivalents including cash on hand, short-term deposits and credit balances with banks amounted to €91.8 million (31 December 2015: €112.5 million). There were no access restrictions, as had also been the case in the previous year.

20. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The non-current assets classified as held for sale as at 31 December 2016 relate to some of the land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, which are situated in Cologne. The land and buildings of Deutz-Mülheim Grundstücksgesellschaft mbH are allocated to the DEUTZ Compact Engines segment.

21. EQUITY

€ million	31 Dec 2016	31 Dec 2015
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	17.1	18.3
Retained earnings and accumulated income	136.2	134.3
Equity attributable to the shareholders of the parent	491.1	490.4
Non-controlling interests	–	5.2
Total	**491.1**	**495.6**

Issued capital

At the end of 2016, the issued capital (share capital) of DEUTZ AG amounted to €308,978,241.98 (unchanged on the end of 2015) and was divided into 120,861,783 no-par-value bearer shares (also unchanged).

Additional paid-in capital

The additional paid-in capital contains premiums and contributions from shareholders as well as the equity component of compound financial instruments such as non-interest-bearing convertible profit-sharing rights and low-interest-bearing convertible bonds. The value of the conversion right linked to previous profit-sharing rights and bonds was recognised in equity on the issue date at fair value less pro rata transaction costs, taking account of deferred taxes.

No such compound financial instruments were in issue, either in 2016 or in 2015.

Other reserves

Currency translation Translation differences allocated to the shareholders of DEUTZ AG arising from the translation of equity at historical rates and the translation of the net income or loss at average rates for the year are reported under accumulated other comprehensive income/loss. In the year under review, this item increased other comprehensive income by €0.4 million (2015: increase of €3.5 million). The cumulative gain on translation differences recognised in other reserves amounted to €19.1 million at the end of 2016 (31 December 2015: gain of €18.7 million recognised). Total differences arising from currency translation amounted to a gain of €0.2 million (2015: gain of €2.8 million), of which a loss of €0.2 million was attributable to non-controlling interests (2015: loss of €0.7 million).

Fair value reserve This reserve is used for the recognition of changes in the fair value of available-for-sale financial instruments. That portion of the gain or loss on a cash flow hedging instrument determined to be an effective hedge is also recognised in the fair value reserve.

Retained earnings and accumulated income

This item includes DEUTZ AG's legal reserve of €4.5 million (31 December 2015: €4.5 million).

Non-controlling interests

In 2015, non-controlling interests had arisen from the 30 per cent equity investment held by Shandong Changlin Machinery Group Co., Ltd. in our subsidiary DEUTZ Engine (Shandong) Co., Ltd., Linyi, China. Following the deconsolidation of this company at the end of the reporting year, there were no non-controlling interests as at 31 December 2016.

Dividend

According to the German Stock Corporation Act (AktG), the dividend is paid from the accumulated income reported in the annual financial statements of DEUTZ AG prepared in accordance with the German Commercial Code (HGB). In 2016, DEUTZ AG distributed a dividend of €8.5 million to its shareholders (€0.07 per share) from the accumulated income reported for 2015.

The Board of Management proposes using €8.5 million of the accumulated income reported by DEUTZ AG for the 2016 financial year to pay a dividend of €0.07 per no-par-value share.

22. PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

DEUTZ AG has both defined contribution plans and defined benefit plans for its employees.

Defined contribution plans

Employees in Germany receive statutory social insurance benefits for which contributions are paid as part of income. At DEUTZ, there are also further direct insurance policies that are financed by employees. These plans are treated as defined contribution plans because the Company has no obligation beyond the payment of contributions to private insurers. Ongoing contribution payments are reported as an expense for the period concerned.

The employer's contribution to the German statutory pension insurance scheme in 2016 came to €15.3 million (2015: €15.6 million). In addition, a further €2.2 million (2015: €2.3 million) was paid for pension and direct insurance policies in connection with deferred compensation.

Defined benefit plans

The DEUTZ Group maintains several defined benefit pension plans in Germany and abroad. The largest pension plans are in Germany and the UK. Together, they accounted for more than 95 per cent of defined benefit obligations and 100 per cent of plan assets, as was the case in 2015.

In all, there are four defined benefit pension plans in Germany (2015: three). The year-on-year increase is attributable to the inclusion of the subsidiary Ad. Strüver KG (GmbH & Co.), Hamburg, in the consolidated financial statements of DEUTZ AG. While three of the plans are employer funded, the fourth is a deferred compensation plan. As a rule, the employer-funded pension plans comprise a general employee retirement pension for life, a disability pension and a surviving dependants' pension. The level of the monthly pension paid under the employer-funded pension plans is based on earned income and years of service in the DEUTZ Group. No employer-funded pension entitlements have been granted to new employees joining the DEUTZ Group since 1995. In the case of the deferred compensation plan, the Company has taken out a reinsurance policy with a life insurance company based on the amount of salary contribution and undertakes to pay a pension based on the guaranteed capital that has been underwritten. In Germany, occupational pension schemes are governed by the Occupational Pensions Act (BetrAVG), according to which the DEUTZ Group has sole responsibility for meeting the requirements of defined benefit pension plans. The normal retirement age is 67.

The existing defined benefit plan in the UK entitles pension beneficiaries to a pension which depends on the level of their basic salary and the number of eligible years of service. The retirement age is between 62 and 65. The pension scheme is closed to new members. The annual pension paid is between 1/55 and 1/60 of the highest basic salary received in the final five years of service for each eligible year of service. The pension plan is primarily funded by converting pension beneficiaries' basic salary and employer contributions into plan assets. The DEUTZ Group undertakes to compensate for any shortfall in the scheme. Every year, the amount for which the Company is liable is determined with reference to a report by an independent pensions actuary.

According to legislation in the UK, the pension plan, including the plan assets, must be administered by independent trustees. The investment policy for the pension plan specifies that 50 per cent of the accumulated plan assets must be invested in equity instruments and 50 per cent in debt instruments. This investment strategy is specifically intended to counteract capital market risk and the associated risk of mismatches between the Company's payment obligations arising from the pension plan on the one hand and the plan assets on the other.

In connection with the defined benefit pension plans, the Group is exposed to capital market risk arising from its investment of the plan's assets in addition to general actuarial risks such as interest-rate risk, the risk of rising annuity rates and longevity risk.

Funded status of pension plans

€ million	**2016**	2015
Pension plans in Germany		
Present value of defined benefit obligation	183.1	182.0
Fair value of plan assets	5.0	4.9
Deficit (net liability)	**178.1**	**177.1**
Pension plans in the UK		
Present value of defined benefit obligation	28.7	26.7
Fair value of plan assets	22.8	22.9
Deficit (net liability)	**5.9**	**3.8**
Other pension plans		
Present value of defined benefit obligation	6.0	5.7
Fair value of plan assets	–	–
Deficit (net liability)	**6.0**	**5.7**
Total		
Present value of defined benefit obligation	217.8	214.4
Fair value of plan assets	27.8	27.8
Deficit (net liability)	**190.0**	**186.6**

The following table shows the breakdown of separate groups to which the pension plans in Germany and the UK have obligations to pay benefits:

Breakdown of defined benefit obligation by beneficiary

€ million	**2016**	2015
Pension plans in Germany		
Active members	11.6	11.7
Deferred members	10.9	12.8
Pensioners	160.6	157.5
Present value of defined benefit obligation	**183.1**	**182.0**
Pension plans in the UK		
Active members	–	3.8
Deferred members	15.4	13.1
Pensioners	13.3	9.8
Present value of defined benefit obligation	**28.7**	**26.7**

The change in the net liability for defined benefit pension plans is shown in the table below:

Change in the net liability for defined benefit pension plans

€ million	**2016**	2015
Net liability as at 1 Jan	**186.6**	**201.8**
Changes to basis of consolidation	0.9	–
Amounts recognised on the income statement	4.0	3.9
Amounts recognised in other comprehensive income	13.3	–4.6
Employer contributions	–0.5	–0.6
Pension benefits paid	–13.8	–14.6
Effects of changes in foreign exchange rates	–0.5	0.7
Net liability as at 31 Dec	**190.0**	**186.6**

The following table shows the change in the present value of the defined benefit obligation:

Change in present value of defined benefit obligation

€ million	**2016**	2015
Defined benefit obligation as at 1 Jan	**214.4**	**228.3**
Changes to basis of consolidation	0.9	–
Service cost	0.2	0.2
Employee contributions	0.1	0.2
Interest expense	4.6	4.5
Remeasurements	16.2	–5.2
thereof: experience adjustments	1.6	–0.3
thereof: actuarial (gains)/losses arising from changes in biometric assumptions	–0.3	–
thereof: actuarial (gains)/losses arising from changes in financial assumptions	14.9	–4.9
Effects of changes in foreign exchange rates	–3.9	2.0
Pension benefits paid	**–14.7**	**–15.6**
Defined benefit obligation as at 31 Dec	**217.8**	**214.4**

At 31 December 2016, the weighted average life of the bulk of the defined benefit obligation was 9.8 years (31 December 2015: 9.7 years).

The increase in the present value of the defined benefit obligation resulting from changes to the basis of consolidation was attributable to the inclusion of the subsidiary Ad. Strüver KG (GmbH & Co.), Hamburg, in DEUTZ AG's consolidated financial statements for the first time with effect from 1 January 2016.

The following two tables show the change in the fair value of the plan assets and the breakdown of the plan assets:

Change in fair value of plan assets

€ million	**2016**	2015
Fair value of plan assets at 1 Jan	**27.8**	**26.5**
Employer contributions	0.5	0.6
Employee contributions	0.1	0.2
Interest income	0.8	0.8
Return on (+)/expenses from (–) plan assets (excl. interest income)	2.9	–0.6
Pensions paid from plan assets	–0.9	–1.0
Currency translation differences	–3.4	1.3
Fair value of plan assets at 31 Dec	**27.8**	**27.8**

Breakdown of plan assets

€ million	**31 Dec 2016**	31 Dec 2015
Cash and cash equivalents	–	–
Equity instruments (by region)		
UK	3.5	5.4
Europe (excl. UK)	2.1	1.8
North America	2.5	1.4
Japan	1.0	0.7
Asia-Pacific	1.0	0.7
Other	1.4	1.4
	11.4	11.5
Debt instruments		
Government bonds	3.9	3.9
Corporate bonds	7.5	7.5
	11.4	11.4
Reinsurance policies	5.0	4.9
Total	**27.8**	**27.8**

Market prices were available for all the equity and debt instruments because they are traded in active markets.

The breakdown of the portions of the net pension cost recognised in current income and expense for 2016 and 2015 is as follows:

Net pension cost

€ million	2016	2015
Current service cost	0.2	0.2
Net interest cost	3.8	3.7
	4.0	**3.9**

The actual return on plan assets in 2016 was €3.7 million (2015: €0.2 million).

The measurement of pension obligations is based on actuaries' reports. The tables below show the main actuarial assumptions underlying the calculations for the defined benefit obligation as at the balance sheet date. The discount rates and pension increases are reported in the form of weighted averages.

Actuarial assumptions

%	2016	2015
Discount rate		
Germany	1.54	2.06
UK	2.70	3.90
Rate of pension increase		
Germany	2.00	2.00
UK	2.20	2.10

Mortality tables

Germany	Heubeck 2005G mortality tables
UK	S1 YoB (standard mortality tables for self-administered plans taking into account future changes in mortality)

The following sensitivity analysis for each material actuarial assumption as at the balance sheet date shows the impact that potential changes in the assumptions at the relevant balance sheet date would have on the defined benefit obligations in Germany and the UK.

Sensitivity analysis

2016	**Impact on defined benefit obligation of:**	
€ million		
	0.50% rise	**0.50% fall**
in discount rate		
Germany	–8.2	9.1
UK	–2.6	2.8
in rate of pension increase		
Germany	8.8	–8.1
UK	2.3	–2.1

Sensitivity analysis

2015	**Impact on defined benefit obligation of:**	
€ million		
	0.50% rise	**0.50% fall**
in discount rate		
Germany	–8.1	8.9
UK	–2.2	2.5
in rate of pension increase		
Germany	8.7	–7.9
UK	1.4	–1.4

Furthermore, we also believe it is possible that the life expectancy of eligible DEUTZ employees will change. If the life expectancy of eligible DEUTZ employees had increased by one year, the increases in the defined benefit obligation arising from the pension plans in Germany and the UK as at 31 December 2016 would have been €16.5 million and €0.8 million respectively (31 December 2015: €15.4 million and €0.5 million respectively).

The sensitivity calculations are based on the average duration of the pension obligations calculated as at 30 November 2016. In order to highlight the impact on the present value of the defined benefit obligations calculated as at 31 December 2016 separately, the calculations were carried out for each of the actuarial parameters deemed to be material and capable of changing.

Future cash flows

For 2017, the DEUTZ Group forecasts that its payments into pension plans will amount to €0.4 million (2016: €0.6 million).

Expected benefit payments

€ million	**31 Dec 2016**
2017	14.9
2018	14.3
2019	13.7
2020	13.2
2021	12.7
2022–2026	55.7

Expected benefit payments

€ million	31 Dec 2015
2016	15.1
2017	14.6
2018	14.0
2019	13.4
2020	12.9
2021–2025	57.7

23. OTHER PROVISIONS

The following table gives a breakdown of other provisions:

€ million	2016 Total	2016 Residual term of up to 1 year	2016 Residual term of more than 1 year	2015 Total	2015 Residual term of up to 1 year	2015 Residual term of more than 1 year
Warranties	61.6	36.2	25.4	72.2	43.5	28.7
Obligations to employees	15.8	6.5	9.3	12.4	4.8	7.6
Restructuring	7.8	6.9	0.9	10.7	3.0	7.7
Onerous contracts	3.5	3.5	–	3.4	3.4	–
Other	5.6	2.8	2.8	7.7	5.0	2.7
Total	**94.3**	**55.9**	**38.4**	**106.4**	**59.7**	**46.7**

Other provisions are recognised at their settlement value calculated as at the balance sheet date and take account of projected cost increases. Non-current provisions are discounted at a rate of 2.5 per cent (31 December 2015: 2.75 per cent).

Other provisions cover all identifiable risks and other contingent liabilities. The main items are the cost of warranties and potential risks, provisions for restructuring and provisions for obligations to employees and onerous contracts. The provisions for restructuring relate to our decision to optimise our network of sites.

The following table shows the changes to other provisions in 2016:

€ million	Warranties	Obligations to employees	Restructuring	Onerous contracts	Other	**Total**
1 Jan 2016	**72.2**	**12.4**	**10.7**	**3.4**	**7.7**	**106.4**
Additions	0.7	11.9	–	0.1	1.3	14.0
Currency translation differences	–	–	–	–	0.1	0.1
Amounts utilised	–4.4	–8.3	–2.9	–	–3.4	–19.0
Reversals	–7.3	–0.2	–0.3	–	–0.2	–8.0
Basis of consolidation	–	–	–	–	0.1	0.1
Accrued interest/effect of changes in interest rates	0.4	–	0.3	–	–	0.7
31 Dec 2016	**61.6**	**15.8**	**7.8**	**3.5**	**5.6**	**94.3**

24. FINANCIAL DEBT

€ million	31 Dec 2016				31 Dec 2015			
	Total	**Residual term up to 1 year**	**Residual term 1–5 years**	**Residual term > 5 years**	Total	Residual term up to 1 year	Residual term 1–5 years	Residual term > 5 years
Liabilities to banks	58.5	16.0	41.9	0.6	71.7	14.7	57.0	–
Other financial debt	1.7	0.2	0.8	0.7	1.8	0.2	0.7	0.9
Total	**60.2**	**16.2**	**42.7**	**1.3**	**73.5**	**14.9**	**57.7**	**0.9**

Liabilities to banks

Liabilities to banks include a loan from the European Investment Bank with a remaining balance of €54.0 million. This unsecured loan is repayable in instalments until July 2020.

The syndicated working capital facility had not been drawn down as at 31 December 2016. This revolving line of credit for a total of €160 million provided by a consortium of banks is a floating-rate facility and is also unsecured.

As part of the contractual terms for both loans, DEUTZ is obliged to comply with certain financial covenants (ratio of financial debt to equity and ratio of financial debt to EBITDA).

Banco Bilbao Vizcaya Argentaria has also granted two loans via our Spanish subsidiary; they have a total remaining balance of €4.1 million. The interest rate on the loans is 1.78 per cent. Because the loans have been used for capital expenditure in Spain, finance costs up to an interest rate of 3.0 per cent are reimbursed by the Spanish government as part of a subsidy programme.

Finally, a financial liability of MAD 12.4 million (Moroccan dirhams) existed as at 31 December 2016 through our subsidiary NIle Ste MAGIDEUTZ S.A., Casablanca, Morocco, in respect of a property leasing agreement with the leasing company WAFABAIL. Translated into the reporting currency, this financial debt amounted to €1.1 million.

Other financial debt

Other financial debt comprises an interest-free government loan.

The fair value of financial debt is described in Note 26 on page 100 et seq.

The weighted average interest rates (after hedging) of the financial debt are:

%	**31 Dec 2016**	31 Dec 2015
Liabilities to banks	2.78	2.87
Other financial debt	–	–

As in 2015, all current financial debt was denominated in euros. Of the non-current financial debt, €1.1 million was denominated in Moroccan dirhams and the remainder in euros.

25. TRADE PAYABLES AND OTHER LIABILITIES

€ million	**31 Dec 2016**	31 Dec 2015
Trade payables	**162.3**	**169.5**
Other liabilities		
Price reduction liabilities	13.0	10.8
Personnel-related liabilities	12.3	7.7
Liabilities to investments	3.0	3.4
Liabilities arising from other taxes	3.1	3.2
Advances received	1.9	2.8
Derivative financial instruments	3.6	1.0
Sundry other liabilities	20.4	20.1
Total	**57.3**	**49.0**

The liabilities from derivative financial instruments resulted from the marking to market of derivatives used to hedge currency and interest-rate risks.

The sundry other liabilities include interest benefits of €1.0 million (31 December 2015: €1.3 million) derived from a loan from the European Investment Bank and of €0.1 million (31 December 2015: €0.2 million) derived from an interest-free government loan. The loans were initially recognised at fair value and are reported as non-current and current financial debt.

NOTES TO THE CASH FLOW STATEMENT

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, short-term deposits and credit balances held with banks.

Dividend income of €0.6 million was included in cash flow from operating activities (2015: €0.5 million).

The cash flow from financing activities includes the dividend paid to the shareholders of DEUTZ AG for 2015, amounting to €8.5 million.

Cash and cash equivalents had reduced by €20.7 million to €91.8 million at the end of 2016 (31 December 2015: €112.5 million). Of this decrease, €2.5 million was attributable to the deconsolidation of the subsidiary DEUTZ Engine (Shandong) Co., Ltd. in Linyi, China.

SEGMENT REPORTING

The following table provides an overview of the segments in the DEUTZ Group for 2016 and 2015.

2016	DEUTZ Compact Engines	DEUTZ Customised Solutions	**Total segments**	Reconciliation (Other)	**DEUTZ Group**
€ million					
External revenue	1,000.8	259.4	1,260.2	–	1,260.2
Intersegment revenue	–	–	–	–	–
Total revenue	**1,000.8**	**259.4**	**1,260.2**	**–**	**1,260.2**
Depreciation and amortisation	78.8	10.5	89.3	–	89.3
Impairment	1.5	–	1.5	–	1.5
Profit/loss on equity-accounted investments	–5.1	–	–5.1	–	–5.1
Income from the reversal of provisions	0.6	–	0.6	0.2	0.8
Operating profit/loss (EBIT)	–6.1	32.7	26.6	–3.2	23.4

2015	DEUTZ Compact Engines	DEUTZ Customised Solutions	**Total segments**	Reconciliation (Other)	**DEUTZ Group**
€ million					
External revenue	967.2	280.2	1,247.4	–	1,247.4
Intersegment revenue	–	–	–	–	–
Total revenue	**967.2**	**280.2**	**1,247.4**	**–**	**1,247.4**
Depreciation and amortisation	86.1	11.5	97.6	–	97.6
Impairment	7.1	2.6	9.7	–	9.7
Profit/loss on equity-accounted investments	–6.3	–	–6.3	–	–6.3
Income from the reversal of provisions	0.7	–	0.7	0.4	1.1
Operating profit/loss (EBIT)	–31.9	31.3	–0.6	5.5	4.9

Reconciliation from overall profit (loss) of the segments to net income

€ million	2016	2015
Overall profit (loss) of the segments	**26.6**	**–0.6**
Reconciliation (Other)	–3.2	5.5
Operating profit (EBIT)	23.4	4.9
Financial income, net	**–3.5**	**–4.0**
Net income before income taxes	19.9	0.9
Income taxes	–3.9	2.6
Net income	**16.0**	**3.5**

External segment reporting is based on intragroup corporate management and internal financial reporting and, in line with the nature of the products and services offered, covers the following reportable operating segments:

DEUTZ Compact Engines This segment comprises new business and the servicing of liquid-cooled engines with capacities of up to 8 litres.

DEUTZ Customised Solutions This segment focuses on air-cooled engines and large liquid-cooled engines with capacities exceeding 8 litres. It also includes customer-specific solutions (gensets) and service. A key component of the service business is the supply of reconditioned exchange parts and engines.

Reconciliation (Other) This contains Group activities that are not allocated to any of the segments. Where relevant, the reconciliation table also shows the elimination of intercompany relationships between the segments. There were no such eliminations in the reporting year or in 2015.

The designation of a business area as an operating segment is based on internal reporting by segment regularly used by the Board of Management to monitor performance and allocate resources. When the DEUTZ Compact Engines reporting segment was defined, the operating segments ‘product line less < 4 litres’ and ‘product line 4–8 litres’ were grouped together to form the ‘DEUTZ Compact Engines’ reportable segment due to their similar economic characteristics and the aggregation criteria in IFRS 8.12. The product programme of the ‘product line less < 4 litres’ comprises new business and the servicing of liquid-cooled engines with capacities of up to 4 litres. ‘Product line 4–8 litres’ also consists of new business plus the servicing of liquid-cooled engines with capacities of 4 to 8 litres. The economic characteristics of the two product lines were deemed to be similar on the basis of their future levels of return on revenue.

The measurement principles applied to the DEUTZ Group’s segment reporting are based on the IFRS principles applied in the consolidated financial statements. The Board of Management, in its capacity as the senior decision-making body, assesses the performance of the segments in terms of their operating profit (EBIT). If entities included in the consolidated financial statements using the equity method are directly attributable to a particular segment, the relevant share of the net income or loss for the period is reported under that segment. Finance costs, financial income and income taxes are reported for the DEUTZ Group as a whole and are not allocated to individual operating segments. External revenue constitutes the revenue that the segments generate from their customers. Revenue generated between segments – where relevant – is reported as inter-segment revenue. Transfers between segments are reported at fair value.

Information about products and services

€ million	2016	2015
Engines	833.4	806.6
Service	167.4	160.6
DEUTZ Compact Engines	**1,000.8**	**967.2**
Engines	139.5	162.4
Service	119.9	117.8
DEUTZ Customised Solutions	**259.4**	**280.2**
Total	**1,260.2**	**1,247.4**

Geographical information about external revenue

€ million	2016	2015
Germany	**221.8**	**163.5**
Outside Germany	**1,038.4**	**1,083.9**
Rest of Europe	588.6	585.5
Middle East	18.5	28.6
Africa	43.8	66.9
Americas	239.6	275.3
Asia-Pacific	147.9	127.6
Total	**1,260.2**	**1,247.4**

Of the European countries outside Germany, Switzerland accounted for €148.6 million in the reporting year (2015: €141.7 million), Sweden for €116.2 million (2015: €125.5 million) and France for €74.1 million (2015: €59.6 million).

The above information is presented according to customer location. Two customers accounted for at least 10 per cent of our total revenue in 2016 (2015: one customer). The revenue from these customers amounted to €242.7 million (2015: €250.8 million) and €132.1 million (2015: €122.5 million) respectively and was reported predominantly in the DEUTZ Compact Engines segment.

Geographical information about non-current assets

€ million	31 Dec 2016	31 Dec 2015
Germany	394.8	424.9
Outside Germany	81.4	89.2
Total	**476.2**	**514.1**

The non-current assets comprise property, plant and equipment, intangible assets and equity-accounted investments. They are presented by location of the consolidated entity.

OTHER INFORMATION

26. FINANCIAL RISK MANAGEMENT AND ADDITIONAL INFORMATION ON CAPITAL MANAGEMENT

Owing to its global business operations, the DEUTZ Group is exposed to various financial risks that can arise from adverse movements and trends in the international sales, procurement, interest-rate and foreign-exchange markets. Information about the principles of risk management with regard to financial instruments can be found in the risk report on page 57 to 58 of the DEUTZ Group's combined management report.

Liquidity risk

Prudent liquidity management includes holding a sufficient reserve of cash and cash equivalents, ensuring the option of obtaining funding through bank loans and the ability to issue short-term and long-term capital market instruments. Because the business environment is constantly changing, the treasury department aims to ensure that it has sufficient unused credit lines at its disposal at all times.

The management of liquidity risk in the DEUTZ Group has a number of components: annual planning with interim updates, rolling four-week planning updated weekly and monthly planning updated monthly up to the end of the financial year. Liquidity risk is also assessed in the regular meetings of the Finance Committee.

In order to ensure sufficient liquidity, DEUTZ has at its disposal a syndicated, revolving cash credit line amounting to €160 million that runs until May 2020 and two long-term amortising loans with a total remaining balance of €54.0 million. These are being repaid in equal instalments between July 2014 and July 2020. As part of the loan agreements, the Company is required to comply with certain covenants.

The liquidity analysis also provides information about contractually agreed interest payments and capital repayments in connection with financial liabilities as at the balance sheet date. As far as the utilisation of revolving credit facilities was concerned, it was assumed that the amounts already drawn down by the balance sheet date would continue to apply until the facilities expire.

31 Dec 2016	2017 cash payments	2018–2021 cash payments	> 2021 cash payments	Total
€ million				
Primary financial instruments	**–230.2**	**–49.9**	**–**	**–280.1**
Derivative financial instruments	**–4.0**	**–0.4**	**–**	**–4.4**
Currency derivatives				
thereof settled gross: cash payments	–64.0	–	–	–64.0
thereof settled gross: cash receipts	60.3	–	–	60.3
Interest rate derivatives				
Presentation of net cash flow	–0.3	–0.4	–	–0.7

31 Dec 2015	2016 cash payments	2017–2020 cash payments	> 2020 cash payments	Total
€ million				
Primary financial instruments	**–231.2**	**–64.3**	**–**	**–295.5**
Derivative financial instruments	**–0.9**	**–0.6**	**–**	**–1.5**
Currency derivatives				
thereof settled gross: cash payments	–47.5	–	–	–47.5
thereof settled gross: cash receipts	46.9	–	–	46.9
Interest rate derivatives				
Presentation of net cash flow	–0.3	–0.6	–	–0.9

Credit risk

The overview of written-down financial assets and of the age structure of past due financial assets that have not been written down does not include cash and cash equivalents of €91.8 million (31 December 2015: €112.5 million) or available-for-sale financial assets of €5.5 million (31 December 2015: €3.2 million).

There are no significant concentrations of potential credit risk in the DEUTZ Group. The risk from bad debts is restricted by constant monitoring and regular analysis of receivables and their breakdown. Receivables are to a large extent covered by credit insurance. Further measures, such as guarantees and creditworthiness checks, are used to protect against credit risk. The Group has also put in place procedures and guidelines to ensure that products and services are only sold to customers who have a satisfactory payment record. Appropriate write-downs are applied to allow for the credit risk attaching to financial assets. The maximum credit risk exposure is limited to the carrying amount in the case of trade receivables and other financial assets such as cash and cash equivalents, available-for-sale financial assets and derivative financial instruments. Credit risk in connection with financial instruments is limited by careful selection of counterparties.

As regards trade receivables and other receivables and assets that were neither past due nor written down as at the balance sheet date, there were no indications that the customers concerned would be unable to meet their payment obligations. The bulk of the DEUTZ Group's trade receivables are insured with the EULER HERMES Group. There is usually an obligation to the trade credit insurance association (WKV) or, where applicable, the German government's export credit guarantee scheme (APG) to meet defaults on the receivables unless they are secured by letters of credit confirmed by a bank or similar instruments. DEUTZ does not produce any standardised credit rating for its customers itself but usually sets the maximum customer exposure in accordance with the level of cover provided by the credit insurance agency. In addition, we have received collateral in the form of payment guarantees and comfort letters amounting to €0.6 million (31 December 2015: €0.6 million) for foreign trade receivables.

31 Dec 2016			thereof written down at the balance sheet date		thereof past due at the balance sheet date but not written down			
€ million								
	Carrying amount	thereof neither past due nor written down at the balance sheet date	Gross amount before write down	Write down	up to 90 days	91 to 180 days	181 to 360 days	over 360 days
Non-current financial assets	**0.5**	**0.5**	**–**	**–**	**–**	**–**	**–**	**–**
Current financial assets	**142.6**	**109.6**	**25.5**	**–22.1**	**31.4**	**–1.2**	**–**	**–0.6**
Trade receivables	113.5	83.6	4.8	–4.5	31.4	–1.2	–	–0.6
Other receivables and assets	29.1	26.0	20.7	–17.6	–	–	–	–

31 Dec 2015			thereof written down at the balance sheet date		thereof past due at the balance sheet date but not written down			
€ million								
	Carrying amount	thereof neither past due nor written down at the balance sheet date	Gross amount before write down	Write down	up to 90 days	91 to 180 days	181 to 360 days	over 360 days
Non-current financial assets	**1.3**	**1.3**	**–**	**–**	**–**	**–**	**–**	**–**
Current financial assets	**122.8**	**91.0**	**40.7**	**–30.5**	**21.3**	**–**	**0.1**	**0.2**
Trade receivables	101.2	70.3	11.7	–2.4	21.3	–	0.1	0.2
Other receivables and assets	21.6	20.7	29.0	–28.1	–	–	–	–

Currency risk

The DEUTZ Group operates internationally and, consequently, is exposed to currency risk arising from fluctuating exchange rates, principally US dollar exchange rates. Exchange-rate risks are monitored under a centralised currency management system and mitigated by the use of hedging transactions. The treasury department uses hedges, primarily currency forwards, to hedge currency risk emanating from the net position of estimated future cash flows in foreign currency. Between 50 per cent and 80 per cent of the net positions anticipated in the budget for the year are usually hedged.

DEUTZ also takes specific action to increase the volume of purchasing in US dollars; this enables the Company to counteract currency risk arising from sales invoiced in US dollars by creating a ‘natural hedge’. Risks arising from the translation of financial statements of subsidiaries prepared in currencies other than the euro are not hedged.

Currency sensitivity analysis

The Group is mainly exposed to exchange-rate risks from the currency of the USA (US dollars).

The following table illustrates the sensitivity – from a Group perspective – to a 10 per cent rise or fall in the euro against the US dollar. The sensitivity analysis only takes into account outstanding monetary positions denominated in foreign currency and adjusts the period-end translation of those amounts to reflect a 10 per cent change in the exchange rate. The positions involved include currency forward contracts that form part of an effective cash flow hedge, the purpose of which is to hedge fluctuations in foreign-currency payments and receipts caused by changes in exchange rates. Because hedging transactions are measured at fair value, changes in the exchange rates for the currencies underlying these transactions have an impact on the hedging reserve in other comprehensive income. Other positions involved are currency forward contracts that are no longer used as hedges. Changes in the exchange rates for the currencies underlying these financial instruments result in gains or losses due to restating these instruments at their fair value. Primary instruments (trade receivables and trade payables) denominated in foreign currency and outstanding as at the balance sheet date are also included in the sensitivity analysis. Changes in the exchange rates for the currencies underlying these items result in gains or losses when they are marked to market.

The following tables show the impact on net income and on equity if the euro rises or falls by 10 per cent against the US dollar.

Cash payments and receipts are shown as net amounts under 'notional amounts'.

Euro rises by 10 per cent

€ million **2016**	Notional amounts	Impact on net income	Notional amounts	Impact on equity
USD	91.7	–7.3	58.8	5.2

€ million 2015	Notional amounts	Impact on net income	Notional amounts	Impact on equity
USD	74.2	–6.2	55.2	4.9

Euro falls by 10 per cent

€ million **2016**	Notional amounts	Impact on net income	Notional amounts	Impact on equity
USD	91.7	9.0	58.8	–6.4

€ million 2015	Notional amounts	Impact on net income	Notional amounts	Impact on equity
USD	74.2	7.6	55.2	–6.1

Interest-rate risk and sensitivity analysis

The DEUTZ Group is exposed to risk from interest rate changes, primarily in relation to floating-rate loans and other debt. As at 31 December 2016, there were no material loans or other debt exposed to interest-rate risk. The floating-rate loan from the European Investment Bank outstanding on the balance sheet date, which had a remaining balance of €27.0 million, was hedged using interest-rate swaps that form part of an effective cash flow hedge. Because hedging transactions are measured at fair value, changes in interest rates have an impact on the hedging reserve in other comprehensive income. The following table shows the impact of the interest-rate swaps on other comprehensive income if market interest rates rise or fall by 100 basis points.

Interest rates rise by 100 basis points

€ million **2016**	Notional amounts	Impact on equity
	27.0	0.5

€ million 2015	Notional amounts	Impact on equity
	34.2	0.8

Interest rates fall by 100 basis points

€ million **2016**	Notional amounts	Impact on equity
	27.0	–0.5

€ million 2015	Notional amounts	Impact on equity
	34.2	–0.8

Capital management

The DEUTZ Group manages its capital with the primary objective of supporting business operations and ensuring the continued existence of the Company as a going concern over the long term. A healthy financial structure is necessary to assure the required flexibility in the provision of financial resources. At present, no credit rating has been set for DEUTZ. However, the DEUTZ Group is endeavouring to achieve a balance-sheet structure that meets the requirements for an investment-grade rating. Capital management therefore extends to both equity and debt.

DEUTZ is not subject to capital requirements under its statutes. However, it is under an obligation towards the banks from which it has obtained loans to ensure that its ratio of net financial debt to equity does not exceed a certain level. This external requirement has been integrated into capital management and was met at all times.

As at the balance sheet date, the net financial position (cash and cash equivalents less interest-bearing financial debt) was €31.6 million, which equated to a year-on-year deterioration of €7.4 million (31 December 2015: €39.0 million). In addition to the net financial position, free cash flow (defined as cash flow from operating activities and investing activities less interest payments) is an essential part of active capital management and is used as a key figure to show changes in the liquidity situation. The free cash flow from continuing operations was €4.7 million in 2016 (2015: €35.0 million). The year-on-year reductions in the net financial position and free cash flow were mainly due to the change in working capital.

The equity ratio is another indicator used by the DEUTZ Group to monitor its capital. This indicator reflects the ratio of total assets to Group equity as reported on the consolidated balance sheet. As at 31 December 2016, the equity ratio for the DEUTZ Group was 46.3 per cent (31 December 2015: 45.5 per cent) and therefore remained at a high level and met all internal targets.

Financial instruments

The following table shows the carrying amounts of the individual financial assets and liabilities for each separate category of financial instrument, reconciled to the corresponding balance sheet item.

Financial instruments (assets)

31 Dec 2016	Measured at amortised cost		Measured at fair value			Assets not within the scope of IAS 39	
€ million	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial assets	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial assets	**0.5**	**0.3**	**5.2**	**–**	**–**	**1.5**	**7.5**
Current financial assets	**234.4**	**–**	**–**	**–**	**–**	**8.2**	**242.6**
Trade receivables	113.5	–	–	–	–	–	113.5
Other receivables and assets	29.1	–	–	–	–	8.2	37.3
Cash and cash equivalents	91.8	–	–	–	–	–	91.8

Financial instruments (assets)

31 Dec 2015	Measured at amortised cost		Measured at fair value			Assets not within the scope of IAS 39	
€ million	Loans and receivables	Available-for-sale financial assets	Available-for-sale financial assets	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial assets	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial assets	**1.3**	**0.2**	**2.9**	**–**	**–**	**2.0**	**6.4**
Current financial assets	**235.3**	**–**	**–**	**–**	**–**	**10.9**	**246.2**
Trade receivables	101.2	–	–	–	–	–	101.2
Other receivables and assets	21.6	–	–	–	–	10.9	32.5
Cash and cash equivalents	112.5	–	–	–	–	–	112.5

Financial instruments (liabilities)

31 Dec 2016	**Measured at amortised cost**	**Measured at fair value**		**Liabilities not within the scope of IAS 39**	
€ million	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial liabilities	**47.0**	**0.9**	**–**	**2.4**	**50.3**
Financial debt	42.9	–	–	1.1	44.0
Other liabilities	4.1	0.9	–	1.3	6.3
Current financial liabilities	**219.9**	**2.4**	**0.3**	**6.9**	**229.5**
Financial debt	16.2	–	–	–	16.2
Trade payables	162.3	–	–	–	162.3
Other liabilities	41.4	2.4	0.3	6.9	51.0

Financial instruments (liabilities)

31 Dec 2015	**Measured at amortised cost**	**Measured at fair value**		**Liabilities not within the scope of IAS 39**	
€ million	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial liabilities	**59.3**	**0.9**	**–**	**1.6**	**61.8**
Financial debt	58.6	–	–	–	58.6
Other liabilities	0.7	0.9	–	1.6	3.2
Current financial liabilities	**219.6**	**0.1**	**–**	**10.5**	**230.2**
Financial debt	14.9	–	–	–	14.9
Trade payables	169.5	–	–	–	169.5
Other liabilities	35.2	0.1	–	10.5	45.8

The following table shows the carrying amounts and fair values of all financial instruments included in the consolidated financial statements that fall within the scope of IFRS 7 ‘Financial Instruments: Disclosures’ and that are not reported at fair value.

€ million	31 Dec 2016		31 Dec 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets	**235.2**	**234.9**	**236.8**	**236.6**
Other loans	–	–	1.3	1.3
Available-for-sale financial assets measured at cost	0.3	–	0.2	–
Trade receivables	113.5	113.5	101.2	101.2
Other receivables and assets	29.6	29.6	21.6	21.6
Cash and cash equivalents	91.8	91.8	112.5	112.5
Financial liabilities	**268.0**	**269.8**	**278.9**	**281,7**
Financial debt – liabilities to banks	60.2	62.0	73.5	76.3
Trade payables	162.3	162.3	169.5	169.5
Other liabilities	45.5	45.5	35.9	35.9

In the case of cash and cash equivalents, trade receivables, trade payables and other current financial assets and liabilities (due within one year), the carrying amounts are virtually the same as the fair values owing to the short residual maturity.

The available-for-sale financial assets with a carrying amount of €0.3 million (31 December 2015: €0.2 million) are investments. They are measured at amortised cost because their fair value cannot be reliably determined due to their not being listed on a market and due to a lack of market data for comparable instruments. There was no intention to dispose of these instruments as at 31 December 2016.

The fair value of non-current financial assets and liabilities is computed by discounting estimated future cash flows using arm's length discount rates and taking into account our own credit risk and that of our counterparties based on credit ratings and exchange rates on the balance sheet date.

The following table shows the classification in the IFRS 13 measurement hierarchy of the fair values as at the balance sheet date of financial assets and liabilities that were measured at fair value in the consolidated financial statements, or for which a fair value was disclosed in the notes to the financial statements:

31 Dec 2016

€ million	**Carrying amount**	**Fair value**	Level 1	Level 2	Level 3
Financial assets					
Securities	3.2	3.2	3.2	–	–
Available-for-sale financial assets measured at fair value	2.0	2.0	–	–	2.0
Financial liabilities					
Currency forwards	2.9	2.9	–	2.9	–
Interest-rate swaps	0.7	0.7	–	0.7	–
Financial debt	60.2	62.0	–	–	62.0

31 Dec 2015

€ million	**Carrying amount**	**Fair value**	Level 1	Level 2	Level 3
Financial assets					
Securities	2.9	2.9	2.9	–	–
Financial liabilities					
Currency forwards	0.1	0.1	–	0.1	–
Interest-rate swaps	0.9	0.9	–	0.9	–
Financial debt	73.5	76.3	–	–	76.3

Level 1: Measurement is based on the price of identical assets or liabilities in active markets.
Level 2: Measurement is based on the price of a similar instrument in active markets/measurement using a method in which all the critical input factors are based on observable market data.
Level 3: Measurement using a method in which critical input factors are not based on observable market data.

The fair value of securities is derived from prices in active markets.

The available-for-sale financial assets measured at fair value relate to the equity investment in DEUTZ Engine (Shandong) Co., Ltd., Linyi, China. As this company is no longer operational and is currently being wound up, the fair value of the equity investment was determined on the basis of the company's net asset value as at 31 December 2016. There was no intention to dispose of these financial assets as at 31 December 2016.

The fair value of derivative financial instruments (currency forwards and interest-rate swaps) is calculated over the remaining term of the instrument using current exchange rates, market interest rates, yield curves and, in the previous year, commodity prices. Our own credit risk and that of our counterparties are also taken into account. The disclosures are based on valuations by banks.

Net gains and losses on financial instruments

Net gains or losses recognised in the income statement are broken down by measurement category in IAS 39 as follows:

2016	Loans and receivables	**Derivatives designated as hedging instruments**	Held-for-trading financial assets	Financial liabilities measured at amortised cost	Held-for-trading financial liabilities
€ million					
Net gains/losses	0.8	–0.4	–	–2.6	–0.3

2015	Loans and receivables	**Derivatives designated as hedging instruments**	Held-for-trading financial assets	Financial liabilities measured at amortised cost	Held-for-trading financial liabilities
€ million					
Net gains/losses	–2.0	–0.4	0.2	–2.9	–

The net gains or losses for each measurement category primarily comprise gains and losses recognised in profit or loss resulting from the measurement of financial instruments at fair value, currency translation of financial instrument carrying amounts, impairment losses and/or reversal of impairment losses on financial instruments and interest income and expense.

In the year under review, no unrealised losses on available-for-sale financial assets were recognised in other comprehensive income (2015: losses of €0.2 million). As had been the case in 2015, no realised gains or losses were reclassified from other comprehensive income to the income statement in 2016.

Total interest income and interest expense

In 2016, interest income of €0.3 million (2015: €0.8 million) and interest expense of €2.5 million (2015: €2.9 million) were attributable to financial assets and financial liabilities that were not measured at fair value through profit or loss.

Hedging

Cash flow hedging As at 31 December 2016, there were currency futures and interest-rate swaps which were classified as hedging instruments. Interest-rate swaps are used to hedge the interest-rate risk associated with floating-rate loans. Currency futures are used to hedge the currency risk arising from forecast transactions in foreign currencies.

Unrealised losses of €2.3 million on cash flow hedges were recognised in other comprehensive income in 2016 (2015: gains of €1.9 million), taking into account deferred tax assets of €0.7 million (2015: deferred tax liabilities of €0.6 million). These changes in fair value represent the effective portion of the hedge. In 2016, prior to the inclusion of deferred taxes, losses of €32 thousand (2015: losses of €8.1 million) recognised in other comprehensive income during the year were reclassified to other operating income or expenses in the consolidated income statement. There was no hedging ineffectiveness requiring reclassification from the reserve for cash flow hedges to the income statement in the year under review. Hedges relating to foreign-currency transactions in the operating business are expected to be unwound within the next twelve months and those relating to future interest-rate risks are expected to be unwound after a period of three and a half years. The associated gains that have been recognised in other comprehensive income will be reclassified to the income statement.

Derivative financial instruments

The following derivative financial instruments were reported as at the balance sheet date:

€ million	**Notional amounts 2016**	Notional amounts 2015	**Fair value 2016**	Fair value 2015
Currency forwards				
not used as hedges	6.9	2.9	–0.3	–[1]
used as cash flow hedges	58.8	55.2	–2.6	–0.1
Interest-rate swaps				
used as cash flow hedges	27.0	34.2	–0.7	–0.9

[1] Rounded figures are below €0.1 million.

Netting

Netting agreements with financial institutions covering derivatives exist within the DEUTZ Group. In accordance with these master agreements, amounts in the same currency relating to outstanding transactions owed by each counterparty on a specific settlement date are aggregated into a net amount.

As at 31 December 2016, there were also netting agreements with customers that permit the DEUTZ Group to net receivables and liabilities with each other that are in the same currency.

The following table shows the financial assets and liabilities that are subject to netting agreements:

31 Dec 2016	Gross amounts	Figures netted on the balance sheet	Net amounts reported on the balance sheet	Related amounts not netted on the balance sheet	Potential net amounts
€ million					
Financial liabilities					
Other liabilities	2.2	1.2	1.0	–	1.0
Derivative financial instruments	0.1	–	0.1	–	0.1

31 Dec 2015	Gross amounts	Figures netted on the balance sheet	Net amounts reported on the balance sheet	Related amounts not netted on the balance sheet	Potential net amounts
€ million					
Financial liabilities					
Derivative financial instruments	0.1	–	0.1	–	0.1

27. INTERESTS IN OTHER ENTITIES

As well as the parent company DEUTZ AG, the consolidated financial statements for 2016 included 16 subsidiaries, two joint ventures and one associate.

The Group subsidiary Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, is a structured entity. DEUTZ holds a total of 19.6 per cent of the voting shares in the entity. The purpose of the company is to sell real estate that was previously purchased by DEUTZ AG to third parties and to lease it to DEUTZ AG in the interim. The entity's activities are controlled by DEUTZ AG as part of its business operations. For this reason, Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf, constitutes a subsidiary and has to be included in the consolidated financial statements of DEUTZ AG.

At the end of 2016, the DEUTZ Group extended the term of its loan to Deutz-Mülheim Grundstücksgesellschaft mbH by a further 15 months, although it has no obligation to provide financial assistance of this kind.

Subsidiaries and non-controlling interests

Following the deconsolidation of the subsidiary DEUTZ Engine (Shandong) Co., Ltd., Linyi, China, at the end of the reporting year, there were no non-controlling interests as at 31 December 2016.

Joint ventures

DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, is an unlisted joint arrangement in which the Group shares joint control and has an ownership interest of 50 per cent. The company, which is structured as a separate vehicle, was established jointly with the First Automotive Works Group (China), Dalian, China. It is a strategic partnership for the production and distribution of diesel engines with a capacity of between 3 and 8 litres for the Chinese market. The interest is classified as a joint venture and accounted for in the consolidated financial statements using the equity method.

A summary of financial information for DEUTZ (Dalian) Engine Co., Ltd. based on its annual financial statements prepared in accordance with IFRS is shown in the following table.

€ million	**2016**	2015
Revenue	303.0	339.5
Depreciation and amortisation	–22.3	–18.3
Interest expenses, net	–9.6	–8.8
Income taxes	–	–
Profit (loss) from continuing operations	–15.4	–18.4
Net income	–15.4	–18.4
Current assets	210.4	233.4
thereof cash and cash equivalents	2.3	3.3
Non-current assets	292.6	322.6
Current liabilities	236.0	245.8
thereof current financial liabilities	95.3	113.0
Non-current liabilities	176.9	200.8
thereof non-current financial liabilities	175.2	198.6
Net assets	**90.1**	**109.4**
Group's share of net assets at 1 Jan	54.7	59.7
Share of net income	–7.7	–9.2
Dividends received in 2016	–	–
Effect of currency translation	–1.9	4.2
Group's share of net assets at 31 Dec	45.1	54.7
Elimination	–6.2	–8.5
Impairment	–	–
Carrying amount using the equity method at 31 Dec	**38.9**	**46.2**

Non-material joint ventures

Financial information is shown below for the Group's interest in DEUTZ AGCO MOTORES S.A., Haedo, Argentina, which is classified as a non-material joint venture.

€ thousand	**2016**	2015
Carrying amount of interests	**–[1]**	**–[1]**
Group's share of:		
Loss from continuing operations	–154	–23
Other comprehensive income	–	–
Net income	**–154**	**–23**

[1] As the carrying amount of the interests was zero, total losses of €203 thousand (2015: €49 thousand) were not recognised under the equity method.

Non-material associates

A summary of financial information is shown below for the Group's interest in D. D. Power Holdings (Pty) Ltd., Elandsfontein, South Africa, which is classified as a non-material associate. The company has a different financial year (ending on 30 November). Annual financial statements for the year ended 31 December have not been prepared for reasons of materiality.

€ thousand	2016	2015
Carrying amount of interests	**2,783**	**2,344**
Group's share of:		
Profit from continuing operations	571	763
Other comprehensive income	–	–
Net income	**571**	**763**

28. CONTINGENT LIABILITIES

Contingent liabilities

The DEUTZ Group's contingent liabilities as at the balance sheet date were as follows:

€ million	31 Dec 2016	31 Dec 2015
Guarantee liabilities	0.1	3.0
Warranty liabilities	0.3	0.5
Total	**0.4**	**3.5**

The guarantee liabilities disclosed in 2015 were almost exclusively liabilities to the subsidiary Ad. Strüver KG (GmbH & Co.), Hamburg. The decrease in guarantee liabilities in 2016 was the result of this subsidiary being included in DEUTZ AG's consolidated financial statements again with effect from 1 January 2016.

Other financial obligations

The following table shows the notional amounts and due dates of other financial obligations:

€ million	31 Dec 2016	31 Dec 2015
due in less than 1 year	8.6	8.5
due in 1 to 5 years	17.2	18.8
due in more than 5 years	–	–
Total	**25.8**	**27.3**

The above obligations largely relate to rental agreements and leases on real estate, movable assets and financial obligations in connection with IT services. Obligations under rental agreements and leases were partly offset by receivables of €18 thousand (2015: €40 thousand) from sub-leases. In 2016, the cost of rentals and leases for real estate and movable assets totalled €9.8 million (2015: €11.9 million).

Commitments to purchase property, plant and equipment and intangible assets amounted to €36.6 million as at 31 December 2016 (31 December 2015: €34.8 million) and commitments to purchase inventories amounted to €80.5 million (31 December 2015: €63.9 million).

Legal disputes

DEUTZ AG and other companies in the DEUTZ Group are involved in a number of legal disputes, claims for damages and arbitration proceedings that could have an impact on the Group's financial position.

Financial provision has been made to cover litigation risks facing the respective Group companies if the event in question occurred before the balance sheet date, an obligation is probable and the amount of the obligation can be determined with a sufficient degree of reliability.

Claims for compensation have been made in respect of isolated product liability cases in the USA although the extent of these is as yet unknown. Due to the low probability of losses occurring, no provisions have been recognised on the balance sheet. The outcome of these legal disputes cannot be predicted with any degree of certainty. It is therefore possible that they might have a negative impact on the financial position or financial performance. However, the level of existing insurance cover means that if the outcome is negative, this impact will only be a maximum of €1.5 million.

We do not expect the above risks to have a significantly adverse long-term impact on the DEUTZ Group's financial position or financial performance beyond the financial provision already made.

29. RELATED PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with related parties.

These include the business relationships between the DEUTZ Group and **entities in which it holds significant investments** as well as the following DEUTZ AG **shareholders** (including their subsidiaries) that are in a position to exert a significant influence over the DEUTZ Group:

- AB Volvo (publ), Gothenburg, Sweden (group)

Related parties also include the **Supervisory Board** and the **Board of Management**.

The following table shows the volume of material goods and services either provided for or received from entities in which the DEUTZ Group holds significant investments:

	Goods and services provided		Other expenses for services received		Receivables 31 Dec		Payables 31 Dec	
€ million								
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Associates	–	–	–	–	–	–	–	–
Joint ventures	7.8	3.2	–	–	2.9	–	–	0.5
Other investments	0.5	0.6	4.7	4.5	0.2	0.9	3.0	2.9
Total	**8.3**	**3.8**	**4.7**	**4.5**	**3.1**	**0.9**	**3.0**	**3.4**

The goods supplied and services rendered to joint ventures are largely attributable to goods supplied to our Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd.

Receivables due from joint ventures amounting to €3.7 million (31 December 2015: €3.4 million) had been written off in full as at 31 December 2016; the expense in 2016 amounted to €0.3 million (2015: €0.4 million). As at 31 December 2016, impairment losses of €13.9 million (31 December 2015: €24.7 million) had been recognised on €14.0 million (31 December 2015: €25.6 million) of the Company's receivables due from other investments. The resulting expense came to €0.1 million in 2016 (2015: €0.1 million). The sharp decline in impaired receivables due from other investments and the corresponding impairment losses resulted from the inclusion of the subsidiary Ad. Strüver KG in the basis of consolidation of DEUTZ AG as at 1 January 2016.

Of these receivables, €6.8 million related to loans granted by DEUTZ (31 December 2015: €6.8 million) on which impairment losses of €6.8 million had been recognised (31 December 2015: €6.8 million). Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

The following table gives a breakdown of the significant business relationships between the DEUTZ Group and its shareholders, including their subsidiaries:

	Volvo Group	
€ million		
	2016	2015
Engines & spare parts supplied	242.7	250.8
Services	1.7	7.1
Receivables as at 31 Dec	7.1	13.6

All transactions were concluded at arm's-length market rates. DEUTZ has an agreement with the Volvo Group that grants Volvo companies extended credit periods in return for payment of a fee.

The following payments were made to the Supervisory Board and the Board of Management as related parties of the DEUTZ Group.

	Supervisory Board		Board of Management	
€ million				
	2016	2015	**2016**	2015
Short-term remuneration[1]	1.0	1.1	2.7	2.7
Termination benefits	–	–	1.9	–
Share-based remuneration[2]	0.1	–[3]	0.9	0.3

[1] The current remuneration for members of the Supervisory Board includes both remuneration for their work as Supervisory Board members and the regular salaries of the salaried employee representatives.
[2] The disclosure of share-based remuneration corresponds with the expense (+) or income (–) recognised in the operating profit in 2016 from the changes in provisions made for distributed virtual share options.
[3] Rounded figures are below €0.1 million.

The termination benefits relate to Dr Leube's early departure from the Company on 31 December 2016.

The DEUTZ Group did not maintain material business relationships with any other related parties.

30. EVENTS AFTER THE REPORTING PERIOD

In connection with the optimisation of our network of sites, the relocation from the Cologne-Deutz site to the Cologne-Porz site was completed at the start of 2017. A development proposal for the Cologne-Deutz site, which covers around 160,000 square metres, is currently going through the planning process. The aim is to redevelop the site and create a new city district. In February 2017, DEUTZ AG's Board of Management decided to examine whether the site can be sold quickly – before the development planning process has been completed – on attractive terms. The Board of Management also authorised the initiation of negotiations on selling the site. If the outcome of these negotiations is positive, DEUTZ may, depending on the specific contractual arrangements, be able to realise a gain in the mid to high double-digit million euros in the short to medium term that would have a positive impact on the Group's financial position and financial performance.

31. SHARE-BASED REMUNERATION PROGRAMMES

Between 2007 and 2016, DEUTZ AG launched long-term incentive plans as long-term components of remuneration. Under these long-term incentive plans, virtual stock options are issued to reward management for its sustained contribution to the Company's success.

General description of the incentive plans of DEUTZ AG

Under DEUTZ AG's incentive plans, virtual options are issued on shares in DEUTZ AG. The Company decides at its discretion who is eligible to participate in the plans. However, only members of the DEUTZ Group's senior management and members of the Supervisory Board of DEUTZ AG may be considered for inclusion. It is at the discretion of the Company to decide how many options are granted.

By the balance sheet date, the following long-term incentive plans (LTI) that were still in existence, with the number of options shown, had been granted free of charge:

Incentive plan	Date of grant	Number of options
LTI no. IV	1 July 2010	330,000
LTI no. V	1 June 2011	280,000
LTI no. VI	1 August 2012	270,000
LTI BoM 2013	1 January 2013 and 1 March 2013	104,079 and 32,663
LTI no. VII	1 July 2013	260,000
LTI BoM 2014	1 January 2014	72,389
LTI no. VIII	1 September 2014	320,000
LTI BoM 2015	1 January 2015	125,657
LTI no. IX	1 June 2015	320,000
LTI BoM 2016	1 January 2016	147,577
LTI no. X	1 September 2016	340,000

A total of 482,365 of these options had been granted to current and former members of the DEUTZ AG Board of Management.

Information on the exercise of options

One of the fundamental requirements for exercising options is that the option holders themselves invest in the Company at a ratio of one share per ten options, or one share per 20 options in the case of LTI BoM 2013 to 2016. The absolute earliest that options can be exercised is three or four years after the date of grant (vesting period) and then only within four years from the end of the vesting period and only within ten days from the date of publication of quarterly financial statements. However, options under the LTI BoM 2013 to 2016 are exercised automatically four years after the date of grant. The Company may delay the start of the exercise window for the options or accelerate the exercise and vesting periods, but cannot change the exercise or vesting periods of the options relating to LTI BoM 2013 to 2016.

Furthermore, options may only be exercised

- if the market price of DEUTZ AG shares has risen by at least 30 per cent relative to the reference price (dividend distributions by DEUTZ AG must be taken into consideration, i.e. for the purposes of calculating the performance target, the total gross dividend distribution up to the exercise date must be added to the DEUTZ AG share price), or
- if, in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the Prime Industrial Performance Index – or any future index that replaces the Prime Industrial Performance Index – by at least 30 per cent, or
- in the case of LTI BoM 2013 to 2016, if, in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the MDAX – or any future index that replaces the MDAX – by at least 10 percentage points.

A request to exercise options must be submitted to the Company in writing.

The following specific terms and conditions apply to the incentive plans still in existence:

Incentive plan	Earliest or automatic exercise date	Reference price
LTI no. IV	1 July 2014	€4.39
LTI no. V	1 June 2015	€6.10
LTI no. VI	1 August 2016	€3.89
LTI BoM 2013	1 January 2017 and 1 March 2017	€3.36 and €3.98
LTI no. VII	1 July 2017	€4.45
LTI BoM 2014	1 January 2018	€6.63
LTI no. VIII	1 September 2018	€5.37
LTI BoM 2015	1 January 2019	€3.82
LTI no. IX	1 June 2019	€4.40
LTI BoM 2016	1 January 2020	€3.42
LTI no. X	1 September 2020	€3.94

When an option is exercised, the beneficiary receives a cash payment in the amount of the difference between the DEUTZ AG share price on the exercise date and the reference price at the time the option was granted. Under the LTI BoM 2013 to 2016, however, beneficiaries receive a cash payment equivalent to the average closing price of DEUTZ AG shares on the 60 trading days prior to the end of the vesting period up to a maximum of 1.5 times the reference price. No beneficiary receives shares in the Company.

The following table shows the changes to the number of outstanding options in 2016:

Incentive plan	Outstanding options at 1 Jan	Options granted	Options exercised	Options expired	Outstanding options at 31 Dec
LTI no. II	75,000	–	–	–75,000	–
LTI no. IV	230,000	–	–	–	230,000
LTI no. V	240,000	–	–	–	240,000
LTI no. VI	250,000	–	–	–10,000	240,000
LTI BoM 2013	136,742	–	–	–	136,742
LTI no. VII	250,000	–	–	–	250,000
LTI BoM 2014	72,389	–	–	–	72,389
LTI no. VIII	300,000	–	–	–20,000	280,000
LTI BoM 2015	125,657	–	–	–	125,657
LTI no. VIII	320,000	–	–	–20,000	300,000
LTI BoM 2016	–	147,577	–	–	147,577
LTI no. X	–	340,000	–	–	340,000
	1,999,788	487,577	–	–125,000	2,362,365

Notes on the fair value of options

Because the virtual options are cash-based instruments rather than equity-based instruments, the Company is obliged to recognise a provision, the amount of which is derived from the fair value of the virtual options at the grant date and apportioned over the vesting period pro rata temporis.

An option pricing model using the Black-Scholes formula was used to ascertain the fair value. The model factors in the aforementioned exercise prices, the term and the value of the underlying asset (DEUTZ AG shares).

LTI no. IV

The risk-free interest rate (2.50 per cent) used in the calculation is based on German government bonds with terms of up to ten years issued in mid-2010. The assumed volatility (48.87 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €4.10 on 1 July 2010. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI no. V

The risk-free interest rate (3.25 per cent) used in the calculation is based on German government bonds with terms of up to ten years issued in mid-2011. The assumed volatility (51.35 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €6.82 on 1 June 2011. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI no. VI

The risk-free interest rate (1.75 per cent) used in the calculation is based on German government bonds with terms of up to ten years issued in mid-2012. The assumed volatility (57.30 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €3.07 on 1 August 2012. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI BoM 2013

The risk-free interest rate (0.4 per cent) used in the calculation is based on German Federal notes and German Federal Treasury notes with terms of two to five years issued at the start of 2013. The assumed volatility (61.80 per cent) is based on the average value for call options on DEUTZ AG shares available on the market as at 1 January 2013. It is assumed that no option holders leave the Company. These assumptions were also used in the calculation for the options issued on 1 March 2013.

The calculation on the grant date was based on the DEUTZ AG share price of €3.76 on 1 January 2013 and €4.40 on 1 March 2013. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

LTI no. VII

The risk-free interest rate (1.75 per cent) used in the calculation is based on German government bonds with terms of up to ten years issued in mid-2013. The assumed volatility (54.18 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €4.77 on 1 July 2013. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI BoM 2014

The risk-free interest rate (0.625 per cent) used in the calculation is based on German Federal notes and German Federal Treasury notes with terms of two to five years issued at the start of 2014. The assumed volatility (50.44 per cent) is based on the average value for call options on DEUTZ AG shares available on the market as at 1 January 2014. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €6.49 on 1 January 2014. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

LTI no. VIII

The risk-free interest rate (0.63 per cent) used in the calculation is based on German government bonds with terms of up to ten years issued in the second half of 2014. The assumed volatility (57.72 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €4.52 on 1 September 2014. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI BoM 2015

The risk-free interest rate (0.1 per cent) used in the calculation is based on German Federal notes and German Federal Treasury notes issued at the start of 2015. The assumed volatility (45.34 per cent) is based on the average value for call options on DEUTZ AG shares available on the market as at 1 January 2015. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €4.24 on 1 January 2015. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

LTI no. IX

The risk-free interest rate (0.63 per cent) used in the calculation is based on German government bonds with terms of up to ten years issued in the second half of 2015. The assumed volatility (58.58 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €5.24 on 1 June 2015. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI BoM 2016

The risk-free interest rate (0.1 per cent) used in the calculation is based on German Federal notes and German Federal Treasury notes issued at the start of 2016. The assumed volatility (49.71 per cent) is based on the average value for call options on DEUTZ AG shares available on the market as at 1 January 2016. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €3.535 on 1 January 2016. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

LTI no. X

The risk-free interest rate (0.0 per cent) used in the calculation is based on German government bonds with terms of up to ten years issued in the second half of 2016. The assumed volatility (44.30 per cent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €4.00 on 1 September 2016. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

In accordance with the requirement for the fair value of options to be recalculated on each balance sheet date, a calculation was carried out on the basis of the DEUTZ AG share price of €5.35 on 31 December 2016 (31 December 2015: €3.69), which resulted in an expense of €2,373 thousand in 2016 (2015: €330 thousand).

A total provision of €3,836 thousand was recognised at the end of 2016 (31 December 2015: €1,463 thousand). The amount is broken down as follows:

Incentive plan	**31 Dec 2016 € thousand**	31 Dec 2015 € thousand
LTI no. IV	407	223
LTI no. V	375	220
LTI no. VI	674	123
LTI BoM 2013	692	373
LTI no. VII	284	117
LTI BoM 2014	290	134
LTI no. VIII	256	94
LTI BoM 2015	336	116
LTI no. IX	267	63
LTI BoM 2016	189	–
LTI no. X	66	–
	3,836	**1,463**

Of the total expenses in 2016 and the total provisions as at 31 December 2016, the sum attributable to members of the Board of Management and Supervisory Board of DEUTZ AG was €1,003 thousand (2015: €266 thousand) and €1,693 thousand (31 December 2015: €689 thousand) respectively.

The options granted had the following intrinsic values, provided the vesting conditions were met:

Incentive plan	**Intrinsic value per option, provided the vesting conditions are met (€)**	
	31 Dec 2016	**31 Dec 2015**
LTI no. IV	–	–
LTI no. V	–	–
LTI no. VI	1.46	–
LTI BoM 2013	5.04 and 5.35	–
LTI no. VII	–	–
LTI BoM 2014	–	–
LTI no. VIII	–	–
LTI BoM 2015	5.35	–
LTI no. IX	–	–
LTI BoM 2016	5.13	–
LTI no. X	1.41	–

32. STAFF COSTS

€ million	2016	2015
Wages	108.0	107.2
Salaries	119.1	114.0
Social security contributions	43.0	42.7
Net interest cost for provisions for pensions and other post-retirement benefits	3.8	3.7
Cost of post-employment benefits and other long-term benefits	1.6	1.6
Cost of severance payments/personnel restructuring	2.9	1.2
Total	**278.4**	**270.4**

The following table shows the breakdown of staff costs by functional area:

€ million	2016	2015
Cost of sales	165.0	164.8
Research and development costs	29.8	29.8
Selling expenses	47.5	45.8
Administrative expenses	29.5	25.6
Other operating expenses	6.6	4.4
Total	**278.4**	**270.4**

The average number of employees during the year is given in the section about disclosures under German accounting standards in Note 33.

DISCLOSURES UNDER GERMAN ACCOUNTING STANDARDS

33. AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR (PURSUANT TO SECTION 314 (1) NO. 4 HGB)

	2016	2015
Non-salaried employees	2,216	2,274
Salaried employees	1,390	1,409
	3,606	**3,683**
Trainees	86	106
Total	**3,692**	**3,789**

34. CORPORATE GOVERNANCE

In December 2016, the Board of Management and the Supervisory Board of DEUTZ AG issued a declaration of conformity with the recommendations of the German Corporate Governance Code government commission pursuant to section 161 AktG and made this declaration permanently and publicly available on the Company's website (http://www.deutz.de/investor_relations/corporate_governance/declaration_of_conformity.en.html).

35. AUDITORS' FEES

The total fees reported for auditing the consolidated financial statements for 2015 and 2016 are broken down as follows:

€ thousand	2016	2015
Auditing	336	318
Other attestation services	134	181
Total	**470**	**499**

36. TOTAL REMUNERATION FOR THE BOARD OF MANAGEMENT, FORMER BOARD OF MANAGEMENT MEMBERS AND THE SUPERVISORY BOARD

Board of Management

The total remuneration for the Board of Management of DEUTZ AG in 2016 was €3,238 thousand (2015: €3,275 thousand). This consisted of short-term employee benefits of €2,716 thousand (2015: €2,743 thousand) and other long-term benefits as part of the long-term incentive plans amounting to €522 thousand (2015: €532 thousand).

Further details about the remuneration system for members of the Board of Management and details of individual remuneration can be found in the 'Remuneration report' section of the 2016 combined management report.

Remuneration for former members of the Board of Management or their surviving dependants amounted to €3,340 thousand (2015: €1,550 thousand) for DEUTZ AG and the Group. It includes payments of €1,893 thousand in connection with the premature termination of the Board of Management contract of Dr Leube with effect from 31 December 2016. Provisions of €15,293 thousand (31 December 2015: €15,521 thousand) have been recognised to cover pension obligations to former members of the Board of Management.

Supervisory Board

The total remuneration for the Supervisory Board of DEUTZ AG in 2016 was €629 thousand (2015: €613 thousand). In addition, the employee representatives on the Supervisory Board who are also employees of the DEUTZ Group received normal salaries in line with their employment contracts. The level of their salaries represented appropriate remuneration for corresponding functions and tasks in the Group.

Further details about the Supervisory Board remuneration system and details of individual remuneration can be found in the 'Remuneration report' section of the 2016 combined management report.

Advances and loans to members of the Board of Management and the Supervisory Board

As at 31 December 2016, there were no outstanding advances or loans to any members of the Board of Management or the Supervisory Board, nor had any guarantees or other warranties been issued in favour of any such persons.

37. DISCLOSURES UNDER THE GERMAN SECURITIES TRADING ACT (WPHG)

The German Securities Trading Act (WpHG) obliges investors whose share of voting rights in listed companies reaches certain thresholds to notify the company accordingly. DEUTZ AG received the following voting right notifications in 2016:

On 22 January 2016, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had fallen below the 3 per cent threshold on 19 January 2016 and amounted to 2.98 per cent (3,603,758 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 2.98 per cent (3,603,758 voting rights) are attributable to it.

On 8 April 2016, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 4 April 2016 and amounted to 3.05 per cent (3,680,200 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.05 per cent (3,680,200 voting rights) are attributable to it. The voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3 per cent or more: Norges Bank (the Central Bank of Norway).

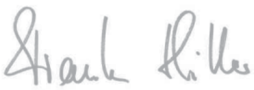
On 5 September 2016, pursuant to section 21 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway, notified us that its voting share in our Company had exceeded the 3 per cent threshold on 19 August 2016 and amounted to 3.95 per cent (4,774,952 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 WpHG, 3.95 per cent (4,774,952 voting rights) are attributable to it. The voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3 per cent or more: Norges Bank (the Central Bank of Norway).

38. SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Information on the members of the Supervisory Board and the Board of Management, including non-executive directorships held at other companies, is given in a separate list on page 120 et seq.

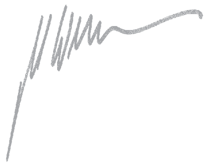
Cologne, 17 February 2017

DEUTZ Aktiengesellschaft
The Board of Management



Dr Ing Frank Hiller

Dr Margarete Haase



Michael Wellenzohn

SHAREHOLDINGS OF DEUTZ AG

As at 31 December 2016

Ref. no.	Name and registered office of the company	Held via	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
1	DEUTZ AG, Cologne	–	–	508,823	45,106
Consolidated companies in Germany					
2	Ad. Strüver KG (GmbH & Co.), Hamburg [1]	6	94.0	–10,980	4
3	DEUTZ Abgastechnik GmbH, Cologne [1,2]	1	100.0	25	–
4	DEUTZ Amerika Holding GmbH [1,2]	1	100.0	92,274	–
5	DEUTZ Asien Verwaltungs GmbH, Cologne [1,2]	1	100.0	16,125	–
6	DEUTZ Beteiligung GmbH, Cologne [1]	1	100.0	91	–393
7	Deutz-Mülheim Grundstücksgesellschaft mbH, Düsseldorf [1]	6	19.6	–21,592	–671
8	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne [1]	1	100.0	–2,256	140
Consolidated companies outside Germany					
9	DEUTZ ASIA-PACIFIC (PTE.) LTD., Singapore (Singapore) [1]	1	100.0	7,996	2,079
10	Deutz Australia (Pty) Ltd., Braeside (Australia) [1]	1	100.0	6,824	252
11	DEUTZ (Beijing) Engine Co., Ltd., Beijing (China) [1]	1	100.0	5,103	470
12	Deutz Corporation, Atlanta (USA) [1]	4	100.0	35,104	1,831
13	DEUTZ FRANCE S.A.S., Gennevilliers (France) [1]	1	100.0	10,608	1,503
14	DEUTZ Spain S.A., Zafra (Spain) [1]	1	100.0	28,670	1,079
15	DEUTZ (SHANGHAI) INTERNATIONAL TRADE Co., Ltd., Shanghai (China)	1	100.0	683	–
16	Nlle Ste MAGIDEUTZ S.A., Casablanca (Morocco) [1]	13	100.0	4,692	1,509
17	OOO DEUTZ Vostok, Moscow (Russia) [1]	1	100.0	2,396	1,371
18	D.D. Power Holdings (Pty) Ltd., Elandsfontein (South Africa) [3,4]	1	30.0	10,142	1,903
19	DEUTZ AGCO MOTORES S.A., Haedo (Argentina) [3]	1	50.0	1,834	–308
20	DEUTZ (Dalian) Engine Co., Ltd., Dalian (China) [3]	1	50.0	77,798	–11,286
Unconsolidated companies in Germany					
21	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne [2]	1	100.0	26	–
22	Feld & Hahn GmbH i. L., Cologne [2]	1	100.0	455	–
Unconsolidated companies outside Germany					
23	DEUTZ Engine (Shandong) Co., Ltd., Linyi (China) [1,6]	3	70.0	5,033	–1,865
24	AROTRIOS S.A., Nea Filadelfia (Greece; inactive)	1	100.0	–	–
25	DEUTZ DO BRASIL LTDA., São Paulo (Brazil)	1	100.0	–5,183	95
26	DEUTZ ENGINEERING druzba za projektiraje, proizvodnjo in trgovino d.o.o., Maribor (Slovenia)	1	100.0	12	29
27	DEUTZ Engines (India) Private Limited, Pune (India) [5]	1	100.0	337	31
28	DEUTZ UK LTD, Cannock (UK)	1	100.0	157	68
29	OOO DEUTZ, Moscow (Russia)	1	100.0	–	–

[1] Equity and net income in accordance with the annual financial statements prepared for consolidation purposes.
[2] Profit-and-loss transfer agreement with DEUTZ AG.
[3] Consolidated using the equity method.
[4] Figures as at 30 November 2016.
[5] Figures as at 31 March 2016 measured using exchange rate as at 31 December 2016.
[6] The company was deconsolidated on 31 December 2016.

SUPERVISORY BOARD

Hans-Georg Härter
Chairman
Proprietor of HGH-Consulting
a) ZF Friedrichshafen AG, Friedrichshafen, Germany
(until 10 August 2016)
Kiekert AG, Heiligenhaus, Germany
Knorr-Bremse AG, Munich, Germany
b) Zeppelin University, Friedrichshafen, Germany
Unterfränkische Überlandzentrale Lülsfeld eG, Lülsfeld, Germany
Klingelnberg AG, Zurich, Switzerland
Faurecia S.A., Paris, France
Altran S.A., Paris, France
Axega GmbH, Zurich, Switzerland

Werner Scherer[1)]
Deputy Chairman
Chairman of the Cologne Works Council and of the General Works Council of DEUTZ AG, Cologne, Germany

Sabine Beutert[1)]
Trade Union Secretary, IG Metall Cologne-Leverkusen Administrative Office, Cologne, Germany

Gisela Füssel[1)]
(since 1 June 2016)
Member of DEUTZ AG Works Council

Hans-Peter Finken[1)]
Member of DEUTZ AG Works Council

Dr Ing Hermann Garbers
Management consultant
a) Rational AG, Landsberg, Germany (until 31 December 2016)

Göran Gummeson
Senior management consultant
b) European Furniture Group AB, Tranås, Sweden
Nimbus Boats AB, Gothenburg, Sweden
Clean Oil Technology AB, Anderstorp, Sweden
German-Swedish Chamber of Commerce, Stockholm, Sweden

Leif Peter Karlsten
CEO of Confiar AB, Gothenburg, Sweden
b) Bulten AB, Gothenburg, Sweden
Prevas AB, Västerås, Sweden
Real Holding AB, Stockholm, Sweden
Alelion Energy System AB, Gothenburg, Sweden

Herbert Kauffmann
Management consultant
a) adidas AG, Herzogenaurach, Germany

Alois Ludwig
Management consultant
b) CARAT Systementwicklung- und Marketing GmbH & Co. KG, Mannheim, Germany

Dietmar Paust[1)]
(until 31 May 2016)
Member of DEUTZ AG Works Council

Dr Witich Roßmann[1)]
Chief Executive of IG Metall Cologne-Leverkusen, Cologne, Germany
a) Ford Werke GmbH, Cologne, Germany
Ford Holding Deutschland GmbH, Cologne, Germany

Dr Herbert Vossel[1)]
Head of Legal at DEUTZ AG, Cologne, Germany

[1)] Employee representative on the Supervisory Board.
a) Membership of statutory German supervisory boards within the meaning of section 125 AktG.
b) Membership of comparable German or international supervisory bodies within the meaning of section 125 AktG.

SUPERVISORY BOARD COMMITTEES

HUMAN RESOURCES COMMITTEE

Hans-Georg Härter, Chairman
Werner Scherer, Deputy Chairman
Herbert Kauffmann

AUDIT COMMITTEE

Herbert Kauffmann, Chairman
Werner Scherer, Deputy Chairman
Sabine Beutert
Hans-Georg Härter

ARBITRATION COMMITTEE (SECTION 27 (3) OF THE GERMAN CODETERMINATION ACT (MITBESTG))

Hans-Georg Härter, Chairman
Herbert Kauffmann
Dietmar Paust (until 31 May 2016)
Werner Scherer

NOMINATIONS COMMITTEE

Hans-Georg Härter, Chairman
Göran Gummeson
Herbert Kauffmann

BOARD OF MANAGEMENT

Dr Ing Frank Hiller (50)
(from 1 January 2017)
Chairman
Technical and head-office functions

b) Deutz Corporation, Atlanta, USA, Chairman (from 1 January 2017)
DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, Deputy Chairman (from 1 January 2017)

Dr Ing Helmut Leube (63)
(until 31 December 2016)
Chairman
Technical and head-office functions

b) Deutz Corporation, Atlanta, USA, Chairman (until 31 December 2016)
DEUTZ (Dalian) Engine Co., Ltd., Dalian, China, Deputy Chairman (until 31 December 2016)

Dr Margarete Haase (63)
Finance, human resources and investor relations

a) Fraport AG, Frankfurt am Main, Germany
ZF Friedrichshafen AG, Friedrichshafen, Germany

b) DEUTZ (Dalian) Engine Co., Ltd., Dalian, China
DEUTZ Engine (Shandong) Co., Ltd., Linyi, China, Chairwoman

Michael Wellenzohn (50)
Sales, service and marketing

b) DEUTZ ASIA-PACIFIC (PTE) LTD., Singapore, Singapore
Deutz Corporation, Atlanta, USA
DEUTZ (Dalian) Engine Co., Ltd., Dalian, China

a) Membership of statutory German supervisory boards within the meaning of section 125 AktG.
b) Membership of comparable German or international supervisory bodies within the meaning of section 125 AktG.

ANNUAL FINANCIAL STATEMENTS IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

BALANCE SHEET OF DEUTZ AG

€ million

Assets	**31 Dec 2016**	31 Dec 2015
Intangible assets	16.3	11.3
Property, plant and equipment	243.2	244.6
Investments	234.9	237.5
Non-current assets	**494.4**	**493.4**
Inventories	153.3	165.5
Receivables and other assets	176.0	144.8
Cash and cash equivalents	80.8	97.7
Current assets	**410.1**	**408.0**
Prepaid expenses	1.6	1.8
Deferred tax assets	83.7	86.3
Total assets	**989.8**	**989.5**

Equity and liabilities	**31 Dec 2016**	31 Dec 2015
Issued capital	309.0	309.0
Additional paid-in capital	26.8	26.8
Retained earnings		
Legal reserve	4.5	4.5
Other retained earnings	152.9	122.9
Accumulated income	15.6	9.0
Equity	**508.8**	**472.2**
Provisions	254.3	269.4
Other liabilities	226.2	247.5
Deferred income	0.5	0.4
Total equity and liabilities	**989.8**	**989.5**