

DEUTZ AG

The following remarks refer to the annual financial statements of DEUTZ AG. The annual financial statements of DEUTZ AG are prepared in accordance with the requirements of the German Commercial Code (HGB).

BASIC PRINCIPLES AND BUSINESS PERFORMANCE OF DEUTZ AG

DEUTZ AG is the parent company of the DEUTZ Group. At home and abroad, DEUTZ AG has various direct and indirect subsidiaries and equity investments. The subsidiaries include a production facility in Spain and several companies that perform sales and service functions. The Chinese production company – DEUTZ Engine (Shandong) Co., Ltd. in Linyi, China – is currently being wound up. In 2016, the sales and service company DEUTZ (SHANGHAI) INTERNATIONAL TRADE Co., Ltd. was established in Shanghai, China. DEUTZ AG holds 100 per cent of the voting shares in this company. In total, DEUTZ AG has a direct or indirect stake in 28 companies (2015: 27 companies). DEUTZ AG is also by far the largest production company of the DEUTZ Group and provides the head-office functions for the Group. For details of DEUTZ AG's equity investments, please see the list of shareholdings on page 119 of the annual report.

Because the business performance and financial situation of DEUTZ AG are essentially the same as for the DEUTZ Group, we make reference here to the 'Business performance in the DEUTZ Group' section on page 29 et seq. of this combined management report.

Because of the significance of DEUTZ AG within the Group, and its heavy interdependencies with other Group companies, the Group is managed at the level of DEUTZ AG. In addition to the key performance indicators used for management at Group level, the net income of DEUTZ AG, as the relevant variable in the payment of dividends, is also an element of the management system of the Company. The internal management system for the DEUTZ Group is described on page 27 et seq. of this combined management report. The DEUTZ Group's net income in accordance with IFRS is reconciled to DEUTZ AG's net income in accordance with the German Commercial Code (HGB):

DEUTZ AG: Reconciliation

€ million	
DEUTZ Group net income (IFRS)	16.0
Consolidation of equity investments	10.5
DEUTZ AG income (IFRS)	26.5
Material differences due to different financial reporting standards	
Recognition of development expenditure	33.0
Measurement of provisions for pensions and other post-retirement benefits	-5.0
Recognition of deferred taxes	-8.6
Other differences relating to the financial reporting standards	-0.8
DEUTZ AG net income (HGB)	45.1

RESULTS OF OPERATIONS

Overview of DEUTZ AG's results of operations

€ million		
	2016	2015
Revenue	1,151.8	1,120.8¹⁾
Cost of sales	-998.3	-978.0 ¹⁾
Research and development costs	-45.0	-43.6
Selling and administrative expenses	-69.3	-70.3 ¹⁾
Other operating income	37.7	38.6 ¹⁾
Other operating expenses	-21.4	-35.9 ¹⁾
Net investment income	4.4	5.6
Operating profit (EBIT)	59.9	37.2¹⁾
Interest expenses, net	-5.7	-8.2
Income taxes	-8.6	-1.7
Other taxes	-0.5	-0.5
Net income	45.1	26.8

¹⁾ Following the initial application of the German Accounting Directive Implementation Act (BilRUG) in the annual financial statements of DEUTZ AG for the year ended 31 December 2016, the prior-year figures have been restated to improve comparability.

Revenue In 2016, the revenue generated by DEUTZ AG amounted to €1,151.8 million, an increase of 2.8 per cent compared with 2015 (€1,120.8 million). This trend was primarily due to increased demand in our largest application segments, Construction Equipment and Agricultural Machinery. In the Construction Equipment application segment, revenue rose by 8.3 per cent to €346.0 million (2015: €319.4 million). Agricultural Machinery saw an even bigger increase of 12.3 per cent to €177.0 million (2015: €157.6 million). As a result of the initial application of the German Accounting Directive Implementation Act (BilRUG) in the annual financial statements of DEUTZ AG for the year ended 31 December 2016, items amounting to €1.8 million are reported under revenue that were previously recognised