NET ASSETS

Overview of DEUTZ AG's net assets

€ million

	31 Dec 2016	31 Dec 2015
Non-current assets	494.4	493.4
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	508.8	472.2
Provisions	254.3	269.4
Liabilities	226.2	247.5
Deferred income	0.5	0.4
Total equity and liabilities	**989.8**	**989.5**
Working capital (€ million)	63.2	67.7
Working capital ratio (31 Dec, %)	5.5	6.1
Equity ratio (%)	51.4	47.7

Working capital: inventories plus trade receivables less trade payables.
Equity ratio: equity / total equity and liabilities.

Non-current assets Non-current assets at 31 December 2016 amounted to €494.4 million (31 December 2015: €493.4 million). The small year-on-year increase was primarily the result of the higher volume of internally generated intangible assets. Unlike the development expenditure recognised in the consolidated financial statements in accordance with IFRS, development expenditure in DEUTZ AG's annual financial statements is only capitalised if it relates to projects that began after the initial application of the BilMoG at DEUTZ AG. For this reason, only development expenditure on new engine projects that are still at the development stage is capitalised. As these development projects cannot yet be depreciated or amortised, the additions were not offset by depreciation or amortisation.

Current assets As at 31 December 2016, current assets amounted to €410.1 million. This increase of €2.1 million compared with twelve months earlier (31 December 2015: €408.0 million) mostly resulted from the higher volume of receivables from affiliated companies and other assets as at 31 December 2016. Decreases in inventories and in cash and cash equivalents largely offset the overall increase in current assets.

Working capital Working capital as at 31 December 2016 was €63.2 million (31 December 2015: €67.7 million), a small year-on-year decrease of €4.5 million. The main factor in this reduction was the lower level of raw materials and consumables and of bought-in parts at the end of 2016. Consequently, trade payables also declined. Trade receivables fell only slightly. The working capital ratio decreased to 5.5 per cent as at the balance sheet date[1] (31 December 2015: 6.1 per cent) owing to the reduction in working capital coupled with the increased volume of business.

Deferred tax assets Deferred tax assets contracted by €2.6 million year on year to €83.7 million (31 December 2015: €86.3 million). This reduction arose, in particular, from temporary differences between the carrying amounts in the tax accounts and in the financial statements under HGB for internally generated intangible assets. Whereas development expenditure is capitalised in the financial statements under HGB, this is prohibited in the tax accounts. The resulting deferred tax liabilities were offset against deferred tax assets as far as possible.

Equity ratio Owing to the positive level of net income, equity advanced by €36.6 million to €508.8 million (31 December 2015: €472.2 million). The rise was partly offset by the distribution of a dividend to the shareholders of DEUTZ AG of €8.5 million for 2015. The equity ratio increased slightly to reach 51.4 per cent (31 December 2015: 47.7 per cent).

Provisions At 31 December 2016, provisions stood at €254.3 million (31 December 2015: €269.4 million). This year-on-year decrease of €15.1 million was primarily attributable to the reduction in provisions for potential warranty claims in the future, as well as to lower provisions for pensions and other post-retirement benefits and lower provisions for income taxes.

Liabilities As at 31 December 2016, liabilities had fallen by €21.3 million to €226.2 million (31 December 2015: €247.5 million). The main factor here was the decline in liabilities to banks, which were scaled back as planned. Moreover, there was a year-on-year decrease in trade payables as at the balance sheet date due to a reduction in orders of raw materials and consumables.

EMPLOYEES

As at 31 December 2016, a total of 2,864 people were employed by DEUTZ AG. This meant that the number of employees had fallen by 79 year on year (31 December 2015: 2,943 employees). We also had a further 159 people on temporary employment contracts as at 31 December 2016, compared with 124 a year earlier. Employing temporary workers enables us to respond flexibly to any fluctuations in demand.

[1] Working capital ratio as at the balance sheet date: ratio of working capital (inventories plus trade receivables less trade payables) at the end of the reporting period to revenue for the preceding twelve months.

Looking at it by segment, DEUTZ Compact Engines employed 2,383 people as at 31 December 2016, 71 fewer than it had employed a year earlier. The number of employees at DEUTZ Customised Solutions was 481, which was eight fewer year on year.

OPPORTUNITY AND RISK REPORT

DEUTZ AG is integrated into the risk management system of the DEUTZ Group. As a head-office function, risk management for the Group is performed by DEUTZ AG. Information about the structuring and mechanics of the risk management system and of risk management with regard to financial instruments can be found in our notes on pages 57 et seq.

Because DEUTZ AG is closely integrated with the other Group companies, its risk and opportunities situation is essentially the same as that of the Group. Risks arising from subsidiaries may have an effect on DEUTZ AG because of the carrying amount of an equity investment, reduced dividend payments and the internal business relations. The risks and opportunities associated with the DEUTZ Group are described on pages 57 to 61 of this combined management report.

Information about DEUTZ AG's internal accounting-related control system and about risk management with regard to the use of financial instruments at DEUTZ AG can be found on page 60 et seq. of this combined management report.

OUTLOOK

DEUTZ AG performs the head-office functions of the DEUTZ Group and is the biggest production company within the Group by some margin. Because of DEUTZ AG's wide-ranging relationships with other Group companies and because of its size within the Group, the expectations presented in the Group outlook for 2017 are essentially the same as those for DEUTZ AG. We therefore anticipate that the revenue of DEUTZ AG will develop largely in line with the statements made for the DEUTZ Group. As the one-off effect resulting from the reversal of the impairment losses recognised on our receivables from Ad. Strüver KG in the reporting year will not be repeated, we expect net income in 2017 to be slightly lower than in 2016. Moreover DEUTZ AG's Board of Management decided in February 2017 to examine whether the Cologne-Deutz site can be sold quickly on attractive terms and has authorised the initiation of negotiations on selling the site. If the outcome of these negotiations is positive, DEUTZ AG may be able to generate a substantial one-off gain within a short period of time – and possibly recognise some of this gain in 2017 – depending on the specific contractual arrangements. Further information can be found in the outlook for the DEUTZ Group on pages 61 to 63.

CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289A HGB

The corporate governance declaration pursuant to section 289a HGB is an integral element of the combined management report. We refer here to our remarks on pages 129 to 134 of the annual report.

DISCLOSURES PURSUANT TO SECTIONS 289 (4) AND 315 (4) HGB

Composition of the issued capital There were no changes to the issued capital (share capital) of DEUTZ AG in 2016. As at 31 December 2016, the issued capital amounted to €308,978,241.98 and was divided into 120,861,783 no-par-value bearer shares.

Direct or indirect shareholdings representing more than 10 per cent of voting rights Since 12 September 2012, AB Volvo of Gothenburg, Sweden, has held 30,246,582 shares in DEUTZ AG, giving it a voting share of 25.026 per cent.

Restrictions affecting voting rights or the transfer of shares According to the information available to us, the transferability of DEUTZ shares held by AB Volvo is restricted by a pre-emption right of the Same DEUTZ-FAHR Group S.p.A. of Treviglio, Italy.

Legal provisions and Statute provisions regarding the appointment and removal of members of the Board of Management and regarding changes to the Statutes According to articles 7 (1) and 7 (2) of the Statutes of DEUTZ AG:

"(1) The Board of Management shall comprise at least two members.
(2) The Supervisory Board shall determine the number of members of the Board of Management and the allocation of responsibilities. It may draw up and issue rules of procedure."

As far as the appointment and removal of members of the Board of Management are concerned, sections 84 and 85 of the German Stock Corporation Act (AktG) and section 31 of the German Codetermination Act (MitbestG) also apply.

According to article 14 of the Statutes of DEUTZ AG:

"The Supervisory Board may change the wording but not the spirit of the Statutes." Sections 179 and 133 AktG also apply in the case of changes to the Statutes.

Authority of the Board of Management, in particular with regard to share issue or buyback The authority of the Board of Management is derived from the legal provisions and from the rules of procedure laid down by the Supervisory Board.