

Current liabilities There was also a decline in current liabilities from €311.7 million as at 31 December 2015 to €303.6 million as at 31 December 2016. This drop of €8.1 million was mainly attributable to the lower level of trade payables.

Total assets fell to €1,059.7 million as at 31 December 2016 (31 December 2015: €1,088.1 million).

OVERALL ASSESSMENT FOR 2016

Last year, DEUTZ was able to offer new and existing customers a comprehensive and compelling product portfolio. DEUTZ diesel engines equipped with particulate filters already comply with the limits defined in the EU Stage V emissions standard, which comes into force in 2019. At bauma 2016, we presented new developments that are further expanding our product range, such as the TCD 2.2 diesel and gas engines, a gas variant of the tried-and-trusted TCD 2.9 and the TCD 5.0. As part of a collaborative partnership with Liebherr, we are also planning to expand our product portfolio in the upper power range by adding four new diesel engines. We are thus always quick to offer our customers the solutions of tomorrow.

Overall, our business performance in the year under review was in line with our expectations. Despite market conditions continuing to be difficult and our customers remaining reluctant to invest, we were able to meet or exceed our forecasts for revenue and earnings. Although unit sales were down by 3.8 per cent, revenue advanced by 1.0 per cent year on year to €1,260.2 million. In the 2015 annual report, we had predicted that revenue would stagnate or, at best, rise slightly. At €1,261.4 million, new orders were up by 2.9 per cent on the previous year. It is encouraging that our profitability improved significantly despite an only moderate increase in the volume of business. Operating profit (EBIT) rose from €4.9 million in 2015 to €23.4 million in 2016. The EBIT margin reached 1.9 per cent, compared with 0.4 per cent the year before. We had forecast a moderate increase in the EBIT margin. Net income grew from €3.5 million to €16.0 million. This led to a significant improvement in earnings per share, which came to €0.14 (2015: €0.04). Free cash flow dropped from €35.0 million to €4.7 million, largely because of the sharp rise in working capital. In operational terms, we implemented the measures to optimise the network of sites in Germany and consolidate our activities in China as planned and, in most cases, completed them. We achieved the first positive

effects from the optimisation of our site network in the reporting year. Going forward, we will continue to focus on increasing efficiency and flexibility and lowering the break-even point still further. On that basis, we will be able to benefit significantly from a recovery in the market.

EMPLOYEES

Overview of the DEUTZ Group's workforce

Headcount	31 Dec 2016	31 Dec 2015
DEUTZ Group	3,665	3,730
Thereof		
In Germany	2,827	2,910
Outside Germany	838	820
Thereof		
Non-salaried employees	2,177	2,221
Salaried employees	1,403	1,401
Trainees	85	108
Thereof		
DEUTZ Compact Engines	2,989	3,050
DEUTZ Customised Solutions	676	680

Number of employees adjusted At the end of 2016, the DEUTZ Group employed a total of 3,665 people, 65 fewer than at the end of 2015 (a fall of 1.7 per cent). As at 31 December 2016, we also had a further 182 people on temporary employment contracts, compared with 151 a year earlier. By offering fixed-term contracts and employing temporary workers, DEUTZ can respond flexibly to any fluctuations in demand. Around 6 per cent of all staff at DEUTZ had fixed-term or temporary contracts as at 31 December 2016.

Net assets

Overall assessment for 2016

Employees

77 per cent of our workforce is employed in Germany. Most of these employees are based in Cologne – 2,202 as at 31 December 2016. 411 employees are based at the Ulm facilities. Of the 838 employees outside Germany, 421 of them work at our DEUTZ Spain subsidiary.

DEUTZ Group: Breakdown of workforce by location

Headcount	31 Dec 2016	31 Dec 2015
Cologne	2,202	2,269
Ulm	411	410
Other	214	231
In Germany	2,827	2,910
Outside Germany	838	820
Total	3,665	3,730

Looking at it by segment, DEUTZ Compact Engines employed 2,989 people as at 31 December 2016, 2.0 per cent fewer than it had employed a year earlier. The number of employees at DEUTZ Customised Solutions was 676, down by 0.6 per cent compared with the end of 2015.

New collective pay agreement for Zafra DEUTZ Spain has concluded a collective pay agreement with the works council that will remain in force until 2018. Employees will receive a cost-of-living allowance. In addition, new pay grades are being introduced for temporary employees and for work on new products in order to maintain our competitiveness and to be able to offer new products to third-party customers with a good prospect of success. This agreement is a reflection of the forward-looking and constructive collaboration between the Company, the trade union and the works council.

Vocational training at DEUTZ Young people in Germany embarking on their career have the opportunity to choose an apprenticeship in various occupations at DEUTZ, ranging from electronics, skilled metalworking and warehouse logistics to mechatronics and business administration. Last year, 27 young women and men started vocational training at our Company. Overall, 54 apprentices were employed at the Cologne site and 19 at the DEUTZ plant in Ulm. We employed six apprentices at both the components plant in Herschbach and the Xchange plant in Übersee, Bavaria.

Our training centre in Cologne also provides vocational training, on a part-time and full-time basis, for apprentices from 17 other companies. In 2016, our overall ratio of trainees to total employees was 3.0 per cent in Germany (2015: 3.7 per cent). All apprentices and trainees passing the final examination were given a permanent employment contract.

Again in 2016, our training centre received recognition and several of our apprentices were commended for their achievements. We also participated once again in various training fairs and careers information events to give young people the opportunity to establish personal contact with the Company. For many years, we have been striving to attract young women to engineering careers by taking part in events such as Girls' Day. Currently, around 8.0 per cent of apprentices at DEUTZ are female.

As part of our site optimisation programme, our training centre was relocated from the Cologne-Deutz site to new facilities in Cologne-Porz in summer 2016.

Recruitment activities successful By attending 'meet@thköl'n' in Cologne and 'bonding' in Aachen, we were again able to find students to help out in various areas of the Company. In the year under review, there were 171 interns employed in our Company, of whom 19 students wrote their bachelor dissertations with us and six wrote their master's dissertations. A total of 40 students spent a practical semester at DEUTZ.

Investing in people In 2016, we carried out succession planning from divisional head to team leader level to ensure that we are consistently able to appoint suitable successors for managerial positions with disciplinary responsibility. Another focus of our succession planning was to identify promising young professionals who should be given specific support with their career planning. This will allow us to continue fulfilling vacant managerial positions with people from within our own ranks.

After carrying out a joint analysis of the specific skills gaps with our managers, we have also expanded our range of inhouse courses for the professional development of our employees and made training on DEUTZ technologies a key focus. A total of 150 inhouse seminars attended by more than 1,100 people were held.

To upgrade the skills of our shop-floor staff, we continued to work with a training provider that specialises in production management and lean management and again made good use of the seminars on occupational health and safety offered by the professional association for the wood and metal industries. In 2016, we also continued our management development activities. At the Ulm site, for example, the 'management driving licence', a modular management training course, was completed by nine managers from different departments.

A rotation programme for high-potential candidates, covering production, quality and design, has been introduced at the Zafra site for the four best engineering graduates from the University of Extremadura and the two best graduates from the dual vocational training scheme. The programme aims to give potential employees for DEUTZ Spain the training they need over a twelve-month period.

Focus on promoting health After relocating from Cologne-Deutz to Cologne-Porz in early 2016, the occupational healthcare centre started operating from its new premises. The 'Ergonomics in the workplace' project continues unabated at the Cologne site. The focus was on the assembly area and the service warehouse. As part of the ERGO-DEUTZ initiative, 340 workstations in Ulm were ergonomically assessed, improvements made where necessary and employees shown how they could introduce exercises into their daily routine to alleviate the problems of sitting at a desk.

Rewards for creativity Our bonus-based ideas management system gathers creative suggestions for improvement from DEUTZ employees. Last year, more than 1,000 ideas were submitted.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility has a long tradition at DEUTZ. As a corporate citizen with operations around the world, we are aware of our duties and obligations. We assume responsibility for our decisions and our actions, for our products and services, for our customers and lenders, for the environment and for the society in which we live. We have been involved in corporate citizenship projects for many years, not only in our home region in the area around Cologne but also throughout Germany and beyond.

Learning about technology in the engine museum The number of visitors to the DEUTZ engine museum continues to rise. It includes exhibits on the origins and history of global motorisation and shows original machines from the early days of the engine. This all started more than 150 years ago with the founding of N.A. Otto & Cie., the predecessor of today's DEUTZ AG. The Company's history department, which is run on a voluntary basis, and the 'Friends of DEUTZ's Engine Collection' initiated joint projects with the Rhineland Regional Association, the Knowledge Foundation of the Sparkasse savings bank in Cologne/Bonn, the German Museum in Munich and the Luxembourg Science Center last year. DEUTZ also promotes a continual dialogue of ideas in order to nurture enthusiasm for technology among the general public, particularly young people.

As in previous years, DEUTZ took part in the 'Nacht der Technik' engineering and technology evening on 23 June 2016. Visitors were able to take a guided tour of our engine museum and the assembly hall at our Cologne-Porz site.

Helping young people and the unemployed into work For more than 25 years, we have been working with IN VIA – an association under the auspices of the German Caritas organisation – and the German Federal Employment Agency to provide career preparation courses for young people with learning and social difficulties. In 2015/2016, a total of 36 participants underwent basic metalwork training over a ten-month period at the DEUTZ training centre, which equipped them with a wealth of skills needed to take up a career. In 2016, 84 per cent of those who completed this training then enrolled on a vocational apprenticeship scheme, which is a relatively high proportion.