Cash and cash equivalents as at 31 December 2016 had fallen by €20.7 million to €91.8 million (31 December 2015: €112.5 million). Of this decrease, €2.5 million was attributable to the deconsolidation of DEUTZ Engine (Shandong) Co., Ltd. in Linyi, China. The net financial position[1] as at 31 December 2016 was €31.6 million, a decrease compared with the same date a year earlier of €7.4 million (31 December 2015: €39.0 million).

Free cash flow[2] decreased year on year, falling by €30.3 million to €4.7 million (2015: €35.0 million). This was due, above all, to the significant reduction in cash flow from operating activities. Consequently, we did not meet our forecast made at the start of 2016 that free cash flow would be in the low to mid-double-digit million euro range. This was primarily because of the aforementioned change in working capital.

CAPITAL EXPENDITURE

After deducting investment grants, capital expenditure on property, plant and equipment and on intangible assets totalled €62.0 million in 2016, which was €7.2 million less than in the previous year (2015: €69.2 million). As in 2015, the bulk of this spending (€49.3 million) went on property, plant and equipment (2015: €50.9 million). Capital expenditure on intangible assets accounted for €12.7 million (2015: €18.3 million). The investing activities relating to property, plant and equipment focused on the construction of the shaft centre in Cologne-Porz, where production was progressively ramped up from mid-2016 onward. There were also additions in connection with replacement investments in machinery and tools. Capital expenditure on intangible assets went mainly on the development of the new TCD 2.2 and TCD 5.0 engine series.

Before the capitalisation of development expenditure, capital investment amounted to €52.9 million (2015: €56.2 million). Capital investment was therefore slightly lower than we had predicted (forecast: €55.0 million). Including the capitalisation of development expenditure, our spending was almost €13.0 million less than the forecast amount of €75.0 million. This was mainly due to a far lower capitalisation rate as a result of the reprioritisation of the timing of development projects.

As in 2015, the bulk of the total capital expenditure after deducting investment grants was invested in the DEUTZ Compact Engines segment (€55.0 million in 2016 and €61.7 million in 2015). Capital expenditure in DEUTZ Customised Solutions was €7.0 million (2015: €7.5 million).

[1] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial debt.

[2] Free cash flow: cash flow from operating and investing activities less interest expense.

NET ASSETS

Overview of the DEUTZ Group's assets

€ million

	31 Dec 2016	31 Dec 2015	Change
Non-current assets	563.6	589.6	–26.0
Current assets	495.7	498.1	–2.4
Assets classified as held for sale	0.4	0.4	–
Total assets	**1,059.7**	**1,088.1**	**–28.4**
Equity	491.1	495.6	–4.5
Non-current liabilities	265.0	280.8	–15.8
Current liabilities	303.6	311.7	–8.1
Total equity and liabilities	**1,059.7**	**1,088.1**	**–28.4**
Working capital (€ million)	204.3	183.6	20.7
Working capital ratio (31 Dec, %)	16.2	14.7	1.5
Working capital ratio (average, %)	17.9	17.6	0.3
Equity ratio (%)	46.3	45.5	0.8

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

Non-current assets Non-current assets of the DEUTZ Group totalled €563.6 million as at 31 December 2016 (31 December 2015: €589.6 million). The decline of €26.0 million was largely due to the reduction in intangible assets. In particular, additions to capitalised development expenditure were much lower than amortisation charges relating to capitalised development expenditure.

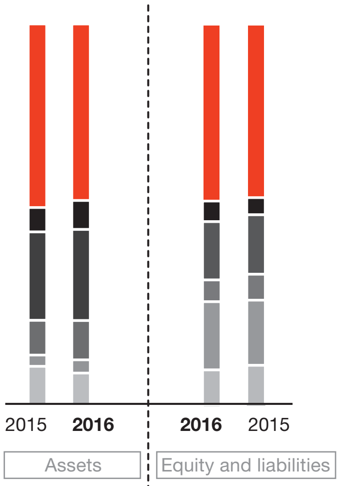
Current assets Current assets were only a little lower than at the end of 2015, falling by €2.4 million to €495.7 million (31 December 2015: €498.1 million). This was mainly attributable to the reduction in cash and cash equivalents and in tax receivables, although the reduction was partly offset by a reporting date-related increase in trade receivables and other receivables and assets.

DEUTZ Group: Balance sheet structure

in % (2015 figures)

Assets

■	**45.6**	(47.8)	Non-current assets
■	**7.6**	(6.4)	Deferred taxes
■	**23.9**	(23.2)	Inventories
■	**10.7**	(9.3)	Trade receivables
■	**3.5**	(3.0)	Other receivables and assets
■	**8.7**	(10.3)	Cash and cash equivalents



Equity and liabilities

■	**46.3**	(45.5)	Equity
■	**5.4**	(4.5)	Other liabilities
■	**15.3**	(15.6)	Trade payables
■	**5.7**	(6.8)	Financial liabilities
■	**17.9**	(17.1)	Pension provisions
■	**9.4**	(10.5)	Other provisions

Working capital Working capital had risen to €204.3 million as at 31 December 2016 (31 December 2015: €183.6 million). The main reason for this was the reporting date-related increase in trade receivables. 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. By contrast, there was only a slight rise in inventories. The decline in raw materials and consumables was offset by an increase in finished goods. Due to the higher level of working capital, the working capital ratio rose to 16.2 per cent as at 31 December 2016 (31 December 2015: 14.7 per cent). The average working capital ratio[1] went up slightly, reaching 17.9 per cent on the reporting date (31 December 2015: 17.6 per cent). Consequently, we did not quite achieve our forecast for an average working capital ratio of approximately 17 per cent, due mainly to the higher level of trade receivables and inventories.

Unrecognised intangible assets In addition to the assets recognised on the balance sheet, DEUTZ has further assets that are not recognised. The DEUTZ brand is synonymous with highly sophisticated technology, quality and reliability and the Company has been a firmly established player in the equipment manufacturing and operating industry for more than 150 years. DEUTZ also enjoys long-standing valuable relationships with customers; it has entered into long-term cooperation agreements, particularly with its key customers.

Equity As at 31 December 2016, equity had decreased to €491.1 million (31 December 2015: €495.6 million). This reduction of €4.5 million was predominantly attributable to the changes to non-controlling interests as a result of the deconsolidation of DEUTZ Engine (Shandong) Co., Ltd. in Linyi, China. This company is currently being wound up and no longer has any operational or strategic significance to the DEUTZ Group. It was deconsolidated for reasons of materiality on 31 December 2016. However, there was a small increase in the Group equity attributable to the shareholders of DEUTZ AG due, above all, to the level of net income.

Despite the decrease in equity, the equity ratio rose slightly to 46.3 per cent (31 December 2015: 45.5 per cent) and thus continued to be within the range that we had forecast at the start of the reporting year of well above 40 per cent.

Non-current liabilities Non-current liabilities totalled €265.0 million as at 31 December 2016 (31 December 2015: €280.8 million). This fall of €15.8 million was largely attributable to the reduction in financial debt, which decreased as planned by €14.6 million to €44.0 million. Furthermore, there was a reduction in other provisions, mainly in connection with the changes to restructuring provisions. In view of their expected use, the bulk of the non-current restructuring provisions were reclassified as current.

[1] Working capital (inventories plus trade receivables less trade payables) as at the balance sheet date divided by revenue for the previous twelve months.

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.