

Receivables management optimised by means of factoring

The sale of receivables is an important way of optimising receivables management. Because the credit quality of our customer receivables is excellent, factoring is also a cost-effective way of improving working capital, especially as considerable cash resources are required to cover the period from the preliminary financing of production to receipt of payment from the customer. The volume of sales of receivables on the balance sheet date was lower than at the end of 2014 as a result of the business situation, the volume as at 31 December 2015 being around €99 million (31 December 2014: €107 million).

FREE CASH FLOW

Cash flow from operating activities amounted to €103.3 million in 2015 (2014: €114.1 million), a year-on-year decrease of €10.8 million. The main reason for this change was the sharp contraction in the volume of business during the reporting year.

The net cash used for investing activities came to €64.4 million in 2015, a rise of €8.5 million year on year (2014: €55.9 million). This increase was attributable, in particular, to higher cash payments in connection with capital expenditure on property, plant and equipment.

Financing activities in 2015 resulted in a net cash outflow of €29.8 million (2014: €17.5 million). This increase of €12.3 million was largely due to substantially higher payments of principal in relation to existing financial liabilities than in the prior year. As in the previous year, cash flow from financing activities included a dividend payment to shareholders of €8.5 million.

Cash and cash equivalents as at 31 December 2015 had risen by €10.8 million to €112.5 million (31 December 2014: €101.7 million). The net financial position¹⁾ as at 31 December 2015 was €39.0 million, a further improvement of €25.3 million compared with the same date a year earlier (31 December 2014: €13.7 million).

Free cash flow²⁾ was lower than in the prior year, decreasing by €17.0 million to €35.0 million (2014: €52.0 million). This was due in large part to the fall in cash flow from operating activities caused by the drop in demand as well as to increased capital expenditure. However, it was within the bandwidth that we had forecast at the start of 2015 of free cash flow in the low to mid-double-digit million euro range.

CAPITAL EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT AND ON INTANGIBLE ASSETS

After deducting investment grants, capital expenditure on property, plant and equipment and on intangible assets totalled €69.2 million in 2015, which was €2.6 million more than in the previous year (2014: €66.6 million). The bulk of this spending (€50.9 million) went on property, plant and equipment (2014:

€37.0 million). Capital expenditure on intangible assets accounted for €18.3 million (2014: €29.6 million). The investing activities relating to property, plant and equipment focused on measures aimed at optimising our network of sites, such as the construction of the shaft centre in Cologne-Porz. There were also additions in connection with replacement investments in machinery and tools. Capital expenditure on intangible assets went mainly on the refinement of our existing engine series.

Before the capitalisation of development expenditure, capital investment amounted to €56.2 million (2014: €40.3 million). Capital expenditure (before capitalisation of development expenditure) was thus slightly higher than the forecast of approximately €50 million that we had made at the start of the year. This was due to several capital spending projects being realised more rapidly than expected.

The bulk of the total capital expenditure after deducting investment grants – €61.7 million – was invested in the DEUTZ Compact Engines segment (2014: €57.8 million). Capital expenditure in DEUTZ Customised Solutions was €7.5 million (2014: €8.8 million). As was the case in 2014, investing activities in both segments focused on property, plant and equipment and on development expenditure.

NET ASSETS

Overview of the DEUTZ Group's assets

€ million	31 Dec 2015	31 Dec 2014	Change
Non-current assets	589.6	625.8	-36.2
Current assets	498.1	523.0	-24.9
Assets classified as held for sale	0.4	0.4	-
Total assets	1,088.1	1,149.2	-61.1
Equity	495.6	511.0	-15.4
Non-current liabilities	280.8	322.7	-41.9
Current liabilities	311.7	315.5	-3.8
Total equity and liabilities	1,088.1	1,149.2	-61.1
Working capital (€ million)	183.6	196.2	-12.6
Working capital ratio (31 Dec, %)	14.7	12.8	1.9
Working capital ratio (average, %)	17.6	13.3	4.3
Equity ratio (%)	45.5	44.5	1.0

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

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 net interest expense.