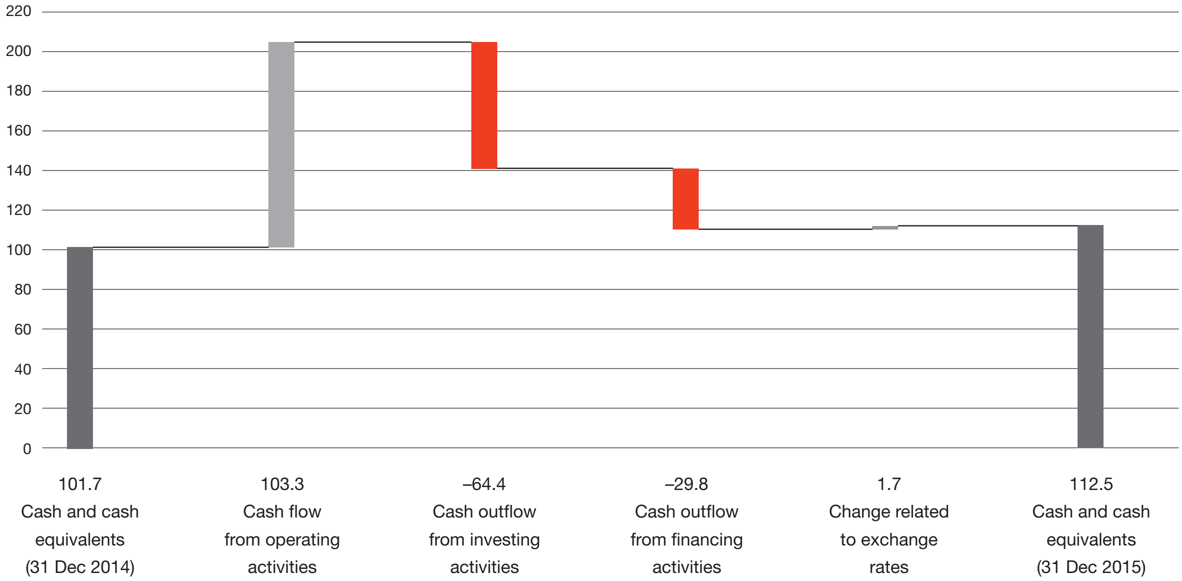
DEUTZ Group: Change in cash and cash equivalents

€ million



contribution to the issued capital of DEUTZ Engine (China) Co, Ltd. in Linyi, China. The decision to wind up the company cancelled this obligation in the third quarter of 2015, thereby eliminating the unrealised negative currency effect that had applied in 2014.

FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

Overview of the DEUTZ Group's financial position

€ million

	2015	2014
Cash flow from operating activities	103.3	114.1
Cash flow from investing activities	–64.4	–55.9
Cash flow from financing activities	–29.8	–17.5
Change in cash and cash equivalents	9.1	40.7
Free cash flow from continuing operations	35.0	52.0
Cash and cash equivalents at 31 Dec	112.5	101.7
Current and non-current interest-bearing financial debt at 31 Dec	73.5	88.0
Net financial position at 31 Dec	39.0	13.7

Free cash flow: cash flow from operating and investing activities less net interest expense.
Net financial position: cash and cash equivalents less current and non-current interest-bearing financial debt.

Central responsibility for treasury Responsibility for financial management in the DEUTZ Group lies with DEUTZ AG as the parent company of the Group. Financial management primarily consists of obtaining the necessary funds, managing their use within the Group, pooling cash resources and hedging interest-rate risk, currency risk and commodities risk throughout the Group.

FUNDING

Syndicated credit line and loan from the European Investment Bank ensure sufficient liquidity In order to ensure sufficient liquidity, DEUTZ has at its disposal a syndicated, revolving working capital facility of €160 million provided by a consortium of banks. It is a floating-rate, unsecured line. In 2015, the term of the facility was extended to May 2020. DEUTZ can elect whether to utilise the cash line as a bilateral overdraft facility (up to €60 million) or to draw down amounts with interest periods of three to six months.

In addition, we have an amortising loan from the European Investment Bank with a remaining balance of €68.4 million at 31 December 2015. This loan, which is also unsecured, is repayable in instalments until July 2020. We have hedged the interest-rate risk arising from this loan.

As part of the contractual agreements for both loans, DEUTZ is obliged to comply with certain financial covenants. They do not limit our leeway for growth projects, however. The working capital facility and the loan from the European Investment Bank have enabled us to secure funding for our projects and for further growth over the medium to long term.

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 position[1] 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 flow[2] 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.