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.

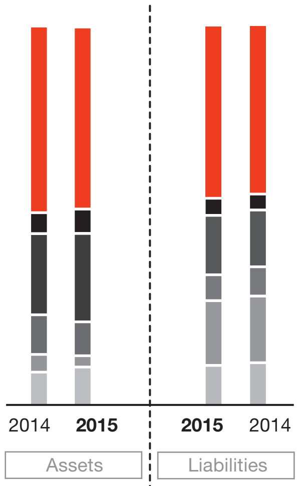
[2] Free cash flow: cash flow from operating and investing activities less net interest expense.

DEUTZ Group: Balance sheet structure

in % (2014 figures)

Assets

47.8	(49.0)	Non-current assets
6.4	(5.5)	Deferred taxes
23.2	(21.3)	Inventories
9.3	(10.6)	Trade receivables
3.0	(4.7)	Other receivables and assets
10.3	(8.8)	Cash and cash equivalents



Liabilities

45.5	(44.5)	Equity
4.5	(4.2)	Other liabilities
15.6	(14.9)	Trade payables
6.8	(7.7)	Financial liabilities
17.1	(17.6)	Pension provisions
10.5	(11.2)	Other provisions

Non-current assets Non-current assets of the DEUTZ Group totalled €589.6 million as at 31 December 2015 (31 December 2014: €625.8 million). The decline of €36.2 million was largely due to the reduction in intangible assets. At €17.8 million, additions were much lower than depreciation and amortisation amounting to €45.9 million as a consequence of the new engines having gone into volume production. The market situation also made it necessary to recognise impairment losses on intangible assets of €7.4 million.

Current assets Current assets were also lower than at the end of 2014, falling by €24.9 million to €498.1 million (31 December 2014: €523.0 million). This was mainly attributable to the volume-related decrease in trade receivables and other receivables and assets. The decrease in other receivables and assets primarily resulted from the derecognition of the outstanding contributions from non-controlling interests, which related to the AB Volvo Group's shareholding in DEUTZ Engine (China) Co., Ltd. in Linyi, China. The outstanding obligations were cancelled as a result of the company being wound up.

Working capital Working capital had dropped to €183.6 million as at 31 December 2015 (31 December 2014: €196.2 million). The main reason for this was the reduction in trade receivables caused by lower demand. Although there was a modest increase in inventories, they decreased slightly after adjustment for exchange rate effects. Trade payables were virtually unchanged. Despite the lower level of working capital, the working capital ratio[1] increased to 14.7 per cent as at 31 December 2015 due to the sharp fall in the volume of business (31 December 2014: 12.8 per cent). The average working capital ratio[2] also rose, reaching 17.6 per cent on the balance sheet date (31 December 2014: 13.3 per cent). Consequently, we were unable to achieve our forecast for an average working capital ratio of approximately 14 per cent, due mainly to the strong contraction in the volume of business.

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 2015, equity had decreased to €495.6 million (31 December 2014: €511.0 million). This reduction of €15.4 million was predominantly caused by the change in non-controlling interests. Following the winding-up of DEUTZ Engine (China) Co., Ltd. in Linyi, China, €2.6 million of the capital that had already been injected by our joint venture partner, the AB Volvo Group, was repaid. The outstanding obligation of the AB Volvo Group to make a contribution to the joint venture's issued capital was also cancelled. By contrast, there was an increase in the Group equity attributable to the shareholders of DEUTZ AG due, above all, to the level of net income and to the positive effects from the higher discount rates used in the measurement of provisions for pensions and other post-retirement benefits. Despite the decrease in equity, the equity ratio rose slightly, from 44.5 per cent as at 31 December 2014 to 45.5 per cent as at 31 December 2015, and was thus within the range that we had forecast at the start of the reporting year of well above 40 per cent.

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

[2] Average working capital (inventories plus trade receivables less trade payables) at the four quarterly reporting dates divided by revenue for the previous twelve months.

Non-current liabilities Non-current liabilities totalled €280.8 million as at 31 December 2015 (31 December 2014: €322.7 million). The decrease of €41.9 million was predominantly caused by the change in provisions for pensions and other post-retirement benefits. These provisions fell by €14.8 million compared with 31 December 2014, mainly due to higher discount rates. We also continued to lower our non-current financial debt, which amounted to €58.6 million as at 31 December 2015. This represented a year-on-year fall of €14.7 million (31 December 2014: €73.3 million). Other provisions also decreased, by €11.7 million, mainly due to a reduction in provisions for warranty costs.

Current liabilities Current liabilities also decreased slightly over the reporting year, from €315.5 million as at 31 December 2014 to €311.7 million as at 31 December 2015. The decline of €3.8 million was largely attributable to the lower level of other provisions.

Total assets amounted to €1,088.1 million as at 31 December 2015 (31 December 2014: €1,149.2 million).

OVERALL ASSESSMENT FOR 2015

For DEUTZ, 2015 was a year of two halves: while the first six months went well, business contracted significantly in the second six months due to increasingly difficult market conditions. This meant we were unable to meet our original targets for revenue and EBIT. Nonetheless, our new products continue to be very well received by the market. We will continue to strive for technologically leading designs with our engines and to further enhance our product range. However, this will be possible with considerably lower development expenditure. We do not regard the key figures for 2015 as satisfactory overall. Year on year, new orders were down by 11.1 per cent, revenue fell by 18.5 per cent to €1,247.4 million and unit sales dropped by almost 30 per cent to 137,781 engines. We had already planned for lower demand resulting from the advance production of engines in 2014, but this effect was compounded by a strong reluctance to invest on the part of our end customers in the second half of the year. On a positive note, however, we have succeeded in structuring the DEUTZ Group in such a way that it can still generate a profit even with a significantly lower volume of business. Operating profit (EBIT before one-off items) decreased from €31.7 million to €4.9 million. The EBIT margin was 0.4 per cent. Although net income fell to €3.5 million in 2015 (2014: €19.5 million), it was still in positive territory. Free cash flow amounted to €35.0 million in the reporting year. In operational terms, we continued as planned with the measures to optimise the network of sites in Germany and with the consolidation of our activities in China. We will continue to focus on increasing quality and efficiency in the DEUTZ Group. On that basis, we believe that we will benefit across the board in the event of a market recovery.

EVENTS AFTER THE REPORTING PERIOD

No events occurred after 31 December 2015 that had a material impact on the financial position or financial performance of the DEUTZ Group.

EMPLOYEES

Overview of the DEUTZ Group's workforce

Headcount

	31 Dec 2015	31 Dec 2014
DEUTZ Group	**3,730**	**3,916**
Thereof		
In Germany	2,910	3,093
Outside Germany	820	823
Thereof		
Non-salaried employees	2,221	2,338
Salaried employees	1,401	1,455
Trainees	108	123
Thereof		
DEUTZ Compact Engines	3,050	3,202
DEUTZ Customised Solutions	680	714

Number of employees adjusted to lower level of production At the end of 2015, the DEUTZ Group employed a total of 3,730 people, 186 fewer than at the end of 2014 (a fall of 4.7 per cent). As at 31 December 2015, we also had a further 151 people on temporary employment contracts, compared with 288 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 2015.

78 per cent of our workforce is employed in Germany. Most of these employees are based in Cologne – 2,269 as at 31 December 2015. 410 employees are based at the Ulm facilities. Of the 820 employees outside Germany, 432 of them work at our DEUTZ SPAIN subsidiary.

DEUTZ Group: Breakdown of workforce by location

Headcount

	31 Dec 2015	31 Dec 2014
Cologne	2,269	2,422
Ulm	410	387
Other	231	284
In Germany	**2,910**	**3,093**
Outside Germany	820	823
Total	**3,730**	**3,916**