

the Group's ordinary business activities or financial transactions that have a countervailing risk profile to that of the hedging transaction. The nature and scope of the hedged items are specified in a binding financing directive.

DEUTZ works exclusively with leading banks in order to minimise counterparty risk.

The treasury department manages the lines of credit in accordance with the Group's financing principles. Subsidiaries are funded primarily by DEUTZ Group loans.

We manage the financial risk as follows:

**Risk from bad debts** We protect ourselves against the risk of bad debts by constantly monitoring our situation, including through electronic means, and by regularly analysing receivables and their breakdown. The Company takes out credit insurance to cover a large proportion of its receivables unless payment is made in advance or by letter of credit.

**Currency risk arising from operating activities** Currency risk, primarily in US dollars, which arises as a result of transactions with third parties denominated in foreign currency, is monitored by means of a central currency management system and mitigated by the use of derivative financial instruments. The DEUTZ Group's net currency exposure is normally hedged by forwards equivalent to 50 to 80 per cent of open items, or 100 per cent in the case of selected project-based firm commitments. DEUTZ is also taking specific action to increase the volume of purchasing in US dollars; this enables the Company to counteract exchange-rate risks from sales invoiced in US dollars by way of natural hedging.

**Interest-rate risk arising from funding arrangements** The DEUTZ Group is exposed to risk from interest rate changes, above all in relation to floating-rate loans and other loans that it has taken up. We hedged the interest-rate risk arising from the funding arranged in mid-2012 with the European Investment Bank. This means that, as far as some of our financial arrangements are concerned, we will not be affected by any rises in short-term interest rates in the future.

**Liquidity risk** The funding agreements concluded provide the Company with adequate liquidity for its further development. During the term of the agreement, DEUTZ AG must ensure that the DEUTZ Group complies with certain financial covenants (ratio of financial debt to equity and ratio of financial debt to EBITDA). The financial covenants have a comfortable buffer in line with our medium-term balance sheet and profit planning. Only if there is a dramatic deterioration in the general economic situation is there a risk of the covenants being breached.

Further information on financial risk management can be found in Note 25 on page 103.

## RISK ASSESSMENT

The assessment of risks in the DEUTZ Group is based on the estimated probability of occurrence in conjunction with the potential impact of the risk on the business objectives. In the following risk report for the DEUTZ Group, the risks are categorised as either 'low', 'moderate' or 'high'. Risks that have been classified as 'low' would be expected to have a low impact of up to €10 million on financial position and financial performance. Risks classified as 'moderate', however, would have a significant impact (between €10 million and €50 million) and risks classified as 'high' would have a major impact of over €50 million on financial position and financial performance. Risks to the Company's survival as a going concern are described as such.

### DEUTZ Group: Risk assessment

Probability of occurrence (%)	80-99	low	moderate	moderate	high	high
	60-79	low	moderate	moderate	high	high
	40-59	low	moderate	moderate	moderate	high
	20-39	low	low	moderate	moderate	moderate
	1-19	low	low	low	moderate	moderate
		minor	moderate	significant	critical	very critical
		Impact				

## RISK

As with the internal risk report, the following presentation of the current risk situation is focused on the risk factors that are important for the DEUTZ Group. Consequently, risks that are referred to were categorised at least as 'low' before measures to counter the risk were taken into account. In contrast to the internal risk management, the risks in the following description are more strongly aggregated and are listed by risk category. Unless otherwise stated, the risks refer to 2016 and relate to both the DCE and DCS segments.