Net interest expense Net interest expense amounted to €5.7 million in 2016 (2015: net expense of €8.2 million). This year-on-year improvement of €2.5 million was mainly attributable to reduced interest expenses for pensions and lower utilisation of credit lines.

Income taxes Income taxes came to €8.6 million in 2016 (2015: €1.7 million). Of this total, current tax expenses accounted for €6.0 million (2015: €2.7 million) and deferred tax expenses for €2.6 million (2015: deferred tax income of €1.0 million). The main reason for the rise in current tax expenses is the improvement in results of operations.

Net income Owing, in particular, to the much better level of operating profit, the net income for the reporting year increased significantly, rising by €18.3 million year on year to €45.1 million (2015: €26.8 million). At the start of 2016, we had predicted a year-on-year decrease in net income, which means we exceeded our forecast. One of the main reasons why we did better than the forecast was the reversal of impairment losses recognised on our receivables from the equity investment Ad. Strüver KG. Another reason was the change in the period, from seven years to ten years, used to determine the average interest rate for measuring pension liabilities. The contribution to earnings of €10.4 million from the positive effect arising from determination of the average interest rate cannot be distributed as a dividend.

In view of the positive level of net income, the Board of Management and Supervisory Board propose using €8.5 million of the accumulated income for the financial year to pay a dividend of €0.07 per share.

FINANCIAL POSITION

Overview of DEUTZ AG's financial position

€ million

	2016	2015
Cash flow from operating activities	50.7	88.7
Cash flow from investing activities	–44.5	–41.0
Cash flow from financing activities	–23.1	–23.9
Change in cash and cash equivalents	–16.9	23.8
Free cash flow	6.0	46.7
Cash and cash equivalents at 31 Dec	80.8	97.7

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

Financial management in the DEUTZ Group is one of the core functions of the Group, and DEUTZ AG holds responsibility for this function. The basic principles and objectives of financial management at DEUTZ AG are therefore largely the same as those of the Group, as is the funding of DEUTZ AG. In this regard, please refer to the relevant sections on page 38 et seq. of this combined management report.

Liquidity Cash flow from operating activities amounted to €50.7 million last year (2015: €88.7 million). The sharp year-on-year fall of €38.0 million was mainly due to the higher volume of current receivables from affiliated companies and the change in working capital. Whereas there had been a marked decrease in working capital in 2015, the level of working capital fell only slightly in the reporting period. Another significant reason for the fall was the rise in income tax payments.

The cash flow from investing activities in 2016 was minus €44.5 million (2015: minus €41.0 million). This change was primarily due to lower cash receipts in connection with disposals of investments. In 2015, following the winding-up of DEUTZ Engine (China) Co., Ltd., headquartered in Linyi, China, an amount of approximately €5.0 million had been withdrawn from the additional paid-in capital of the holding company, DEUTZ Engine China GmbH, and repaid to DEUTZ AG.

Cash flow used for financing activities in 2016 totalled €23.1 million (2015: €23.9 million). This decrease was primarily due to lower interest expense. As in the previous year, cash flow used for financing activities included a dividend payment to shareholders of €8.5 million.

Free cash flow decreased year on year, falling by €40.7 million to €6.0 million (2015: €46.7 million). This was due, above all, to the significant reduction in cash flow from operating activities.

Capital expenditure After deducting investment grants, DEUTZ AG's capital expenditure in 2016 amounted to a total of €52.1 million (2015: €52.9 million). As in 2015, spending primarily related to property, plant and equipment, with €41.2 million being spent on these assets after deducting grants (2015: €42.2 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 development projects totalled €7.5 million (2015: €6.1 million) and mainly related to the development of the new TCD 2.2 and TCD 5.0 engine series.