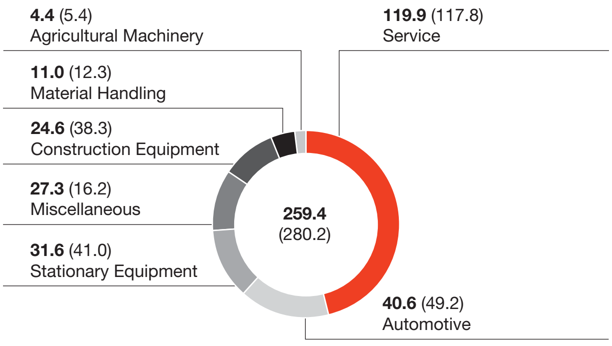
Weaker fourth quarter In the fourth quarter of 2016, new orders in the DCS segment totalled €58.2 million, down by 0.7 per cent year on year and down by 1.2 per cent on the previous quarter. A total of 2,231 engines were sold in the final quarter, which constituted a substantial year-on-year decrease of 23.8 per cent but was on a par with the third quarter of 2016. At €63.6 million, the DCS segment's revenue dropped by 11.0 per cent compared with the fourth quarter of 2015 and by 0.5 per cent compared with the previous quarter.

DEUTZ Customised Solutions: Revenue by application segment

€ million (2015 figures)



DCS's operating profit holds steady at a high level The operating profit of the DEUTZ Customised Solutions segment for the reporting year was €32.7 million (2015: €31.3 million). With the volume of business having reduced, this increase of €1.4 million is mainly attributable to a contribution to profits from the licensing transaction of €5.5 million at the start of the financial year. The operating profit for the segment in 2015 had been adversely affected by impairment losses totalling €2.6 million on intangible assets and on property, plant and equipment.

Other The operating loss reported by the Other segment came to €3.2 million (2015: operating profit of €5.5 million). In 2015, operating profit had been boosted by the sale of the shares in WEIFANG WEICHAI DEUTZ DIESEL ENGINE CO., LTD., Weifang, China. The figure for 2016 includes a loss of €1.4 million arising from the deconsolidation of DEUTZ Engine (Shandong) Co., Ltd., Linyi, China. This company is currently being wound up and no longer has any operational or strategic significance to the DEUTZ Group, so it has been deconsolidated for reasons of materiality.

FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

Overview of the DEUTZ Group's financial position

€ million

	2016	2015
Cash flow from operating activities	63.8	103.3
Cash flow from investing activities	–55.4	–64.4
Cash flow from financing activities	–26.8	–29.8
Change in cash and cash equivalents	–18.4	9.1
Free cash flow from continuing operations	4.7	35.0
Cash and cash equivalents at 31 Dec	91.8	112.5
Current and non-current interest-bearing financial debt at 31 Dec	60.2	73.5
Net financial position at 31 Dec	31.6	39.0

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

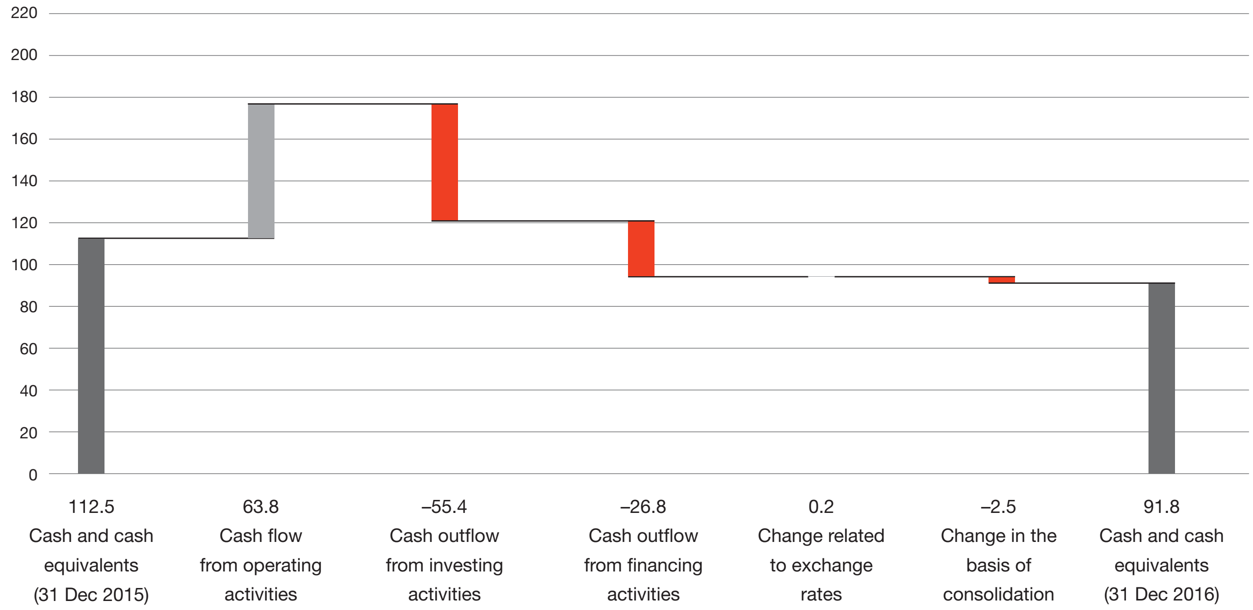
FUNDING

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 and is due to mature in 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 €54 million at 31 December 2016. This loan, which is also unsecured, is repayable in instalments until July 2020. We have hedged the interest-rate risk arising from this loan.

DEUTZ Group: Change in cash and cash equivalents

€ million



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 coming years.

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 tied up by the preliminary financing of production and due to the payment terms that we have granted to our customers. The volume of sales of receivables on the balance sheet date was higher than at the end of 2015 as a result of the business situation, the volume as at 31 December 2016 being around €111 million (31 December 2015: €99 million).

FREE CASH FLOW

Cash flow from operating activities amounted to €63.8 million in 2016 (2015: €103.3 million). This year-on-year fall of €39.5 million was mainly due to the change in working capital. Whereas there had been a marked decrease in working capital in 2015, the level of working capital rose significantly in the reporting period. This change was primarily due to the reporting date-related increase in trade receivables and the simultaneous reduction in trade payables caused by a drop in orders of raw materials and consumables at the end of the reporting year.

Cash outflow from investing activities came to €55.4 million in 2016. This represented a year-on-year decrease of €9.0 million that was caused, in particular, by lower cash payments in connection with development activities (2015: €64.4 million).

Financing activities in 2016 resulted in a net cash outflow of €26.8 million (2015: €29.8 million). As in the previous year, cash flow used for financing activities included a dividend payment to shareholders of €8.5 million.

Cash and cash equivalents as at 31 December 2016 had fallen by €20.7 million to €91.8 million (31 December 2015: €112.5 million). Of this decrease, €2.5 million was attributable to the deconsolidation of DEUTZ Engine (Shandong) Co., Ltd. in Linyi, China. The net financial position[1] as at 31 December 2016 was €31.6 million, a decrease compared with the same date a year earlier of €7.4 million (31 December 2015: €39.0 million).

Free cash flow[2] decreased year on year, falling by €30.3 million to €4.7 million (2015: €35.0 million). This was due, above all, to the significant reduction in cash flow from operating activities. Consequently, we did not meet our forecast made at the start of 2016 that free cash flow would be in the low to mid-double-digit million euro range. This was primarily because of the aforementioned change in working capital.

CAPITAL EXPENDITURE

After deducting investment grants, capital expenditure on property, plant and equipment and on intangible assets totalled €62.0 million in 2016, which was €7.2 million less than in the previous year (2015: €69.2 million). As in 2015, the bulk of this spending (€49.3 million) went on property, plant and equipment (2015: €50.9 million). Capital expenditure on intangible assets accounted for €12.7 million (2015: €18.3 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 intangible assets went mainly on the development of the new TCD 2.2 and TCD 5.0 engine series.

Before the capitalisation of development expenditure, capital investment amounted to €52.9 million (2015: €56.2 million). Capital investment was therefore slightly lower than we had predicted (forecast: €55.0 million). Including the capitalisation of development expenditure, our spending was almost €13.0 million less than the forecast amount of €75.0 million. This was mainly due to a far lower capitalisation rate as a result of the reprioritisation of the timing of development projects.

As in 2015, the bulk of the total capital expenditure after deducting investment grants was invested in the DEUTZ Compact Engines segment (€55.0 million in 2016 and €61.7 million in 2015). Capital expenditure in DEUTZ Customised Solutions was €7.0 million (2015: €7.5 million).

[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 interest expense.

NET ASSETS

Overview of the DEUTZ Group's assets

€ million

	31 Dec 2016	31 Dec 2015	Change
Non-current assets	563.6	589.6	–26.0
Current assets	495.7	498.1	–2.4
Assets classified as held for sale	0.4	0.4	–
Total assets	**1,059.7**	**1,088.1**	**–28.4**
Equity	491.1	495.6	–4.5
Non-current liabilities	265.0	280.8	–15.8
Current liabilities	303.6	311.7	–8.1
Total equity and liabilities	**1,059.7**	**1,088.1**	**–28.4**
Working capital (€ million)	204.3	183.6	20.7
Working capital ratio (31 Dec, %)	16.2	14.7	1.5
Working capital ratio (average, %)	17.9	17.6	0.3
Equity ratio (%)	46.3	45.5	0.8

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

Non-current assets Non-current assets of the DEUTZ Group totalled €563.6 million as at 31 December 2016 (31 December 2015: €589.6 million). The decline of €26.0 million was largely due to the reduction in intangible assets. In particular, additions to capitalised development expenditure were much lower than amortisation charges relating to capitalised development expenditure.

Current assets Current assets were only a little lower than at the end of 2015, falling by €2.4 million to €495.7 million (31 December 2015: €498.1 million). This was mainly attributable to the reduction in cash and cash equivalents and in tax receivables, although the reduction was partly offset by a reporting date-related increase in trade receivables and other receivables and assets.