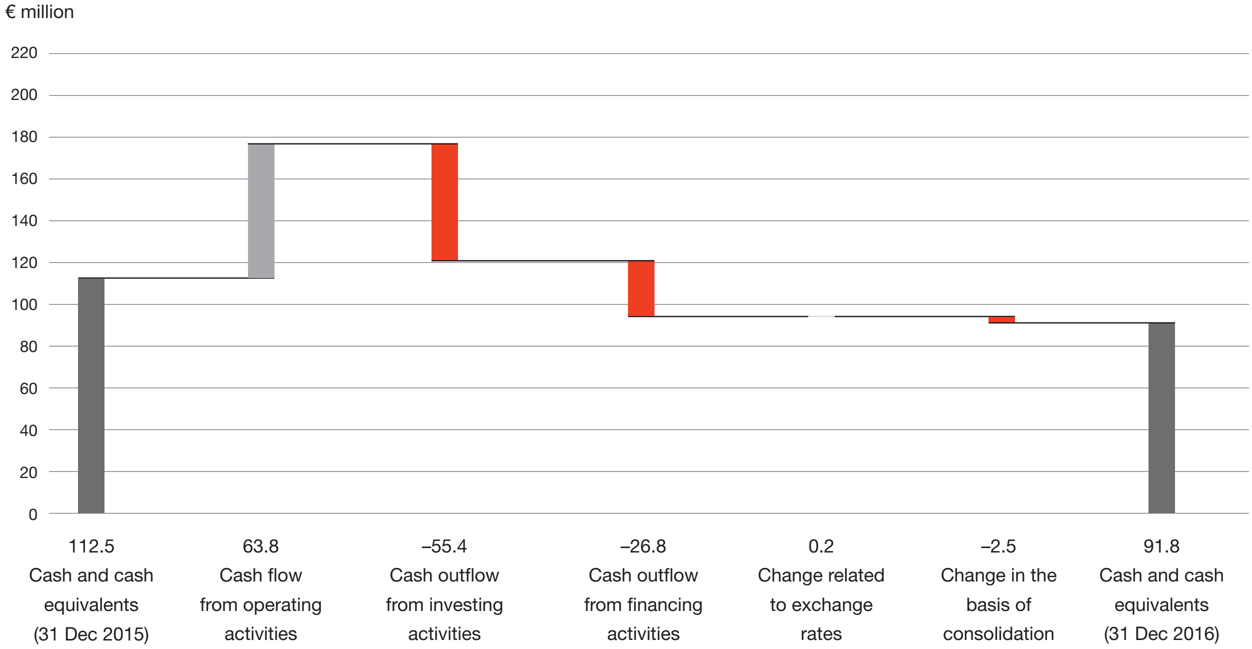
DEUTZ Group: Change in cash and cash equivalents



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.