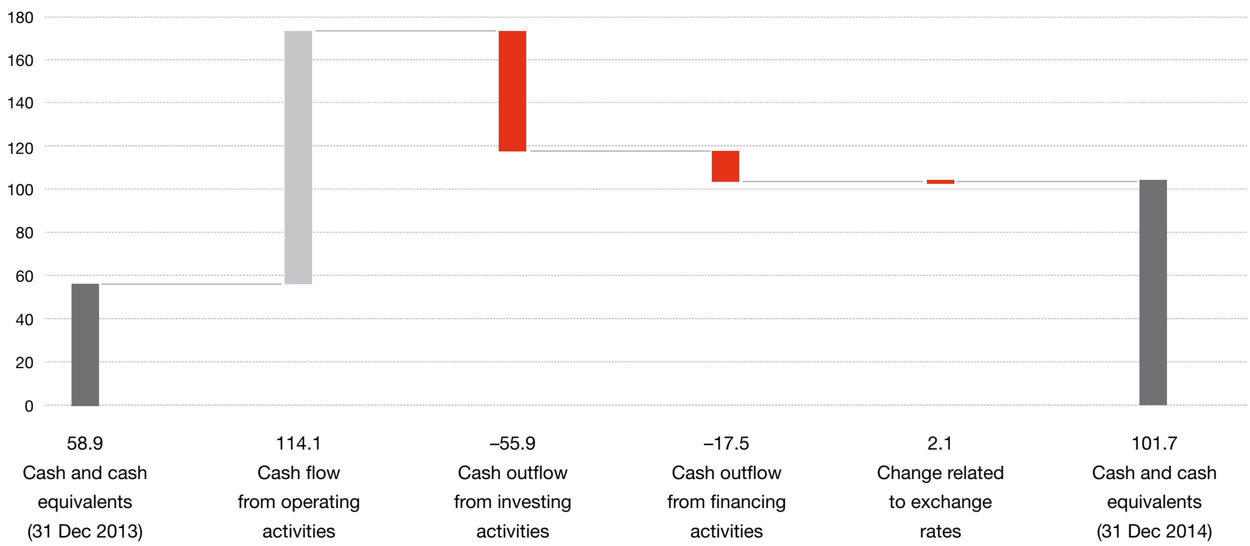
DEUTZ Group: Change in cash and cash equivalents

€ million



FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

Overview of the DEUTZ Group's financial position

	2014	2013
€ million		
Cash flow from operating activities	114.1	105.0
Cash flow from investing activities	–55.9	–84.6
Cash flow from financing activities	–17.5	–13.2
Change in cash and cash equivalents	40.7	7.2
Free cash flow from continuing operations	52.0	13.8
Cash and cash equivalents at 31 December	101.7	58.9
Current and non-current interest-bearing financial liabilities at 31 December	88.0	90.6
Net financial position at 31 December	13.7	–31.7

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

Net financial position: cash and cash equivalents minus current and non-current interest-bearing financial liabilities.

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. In 2014, the term of the facility was extended to May 2019. 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 €82.8 million at 31 December 2014. This loan, which is also unsecured, is repayable in instalments until July 2020. We have hedged the interest-rate risk arising from this loan.

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 medium to long term.

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 factoring on the balance sheet date was lower than at the end of 2013 as a result of the business situation, the volume as at 31 December 2014 being around €107 million (31 December 2013: €175 million).

FREE CASH FLOW

At the end of 2014, cash flow from operating activities amounted to €114.1 million, which was €9.1 million higher than at the end of the previous year (31 December 2013: €105.0 million). Due to the level of orders, there was a greater increase in working capital in 2013 than in 2014.

The cash flow from investing activities in the reporting period fell sharply from minus €84.6 million in 2013 to minus €55.9 million. The primary factor accounting for the decline of €28.7 million were the lower payments associated with capital spending on property, plant and equipment and intangible assets. The sale of our shareholding in DEUTZ Versicherungsvermittlung GmbH at the end of 2013 contributed to this decline because the transaction did not affect cash flow until the first quarter of 2014.

Financing activities in 2014 resulted in a net cash outflow of €17.5 million (2013: €13.2 million). This year-on-year change was largely attributable to the 2013 dividend payment amounting to €8.5 million but it was partly offset by lower borrowing costs in terms of payments of interest and principal.

Cash and cash equivalents as at 31 December 2014 had risen by €42.8 million and stood at €101.7 million (31 December 2013: €58.9 million). The net financial position[1] improved significantly, having risen by €45.4 million since the end of 2013 to €13.7 million at 31 December 2014, the first time it had returned to positive territory since 2009.

Primarily due to the lower amount of net cash used for investing activities, the free cash flow[2] was almost four times higher than in 2013 (€13.8 million), having risen by €38.2 million to €52.0 million and significantly exceeded our forecast at the beginning of the year.

CAPITAL EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT AND ON INTANGIBLE ASSETS

After deducting investment grants, capital expenditure on property, plant and equipment and intangible assets in 2014 totalled €66.6 million, which was €9.7 million less than in 2013 (€76.3 million). Of this total expenditure, €37.0 million was accounted for by property, plant and equipment (2013: €35.5 million) and €29.6 million (2013: €40.8 million) by intangible assets. The capital expenditure on property, plant and equipment focused on production facilities and tools for engines that meet new emissions standards. Capital expenditure on intangible assets was mainly spent on the refinement of existing engines to meet new exhaust emissions standards. Before the capitalisation of development expenditure, €40.3 million was spent on capital investment, a similar level to the previous year (2013: €42.5 million). Because demand in the Chinese market is not following the anticipated trend, virtually all growth-related capital expenditure in China is now on hold, with the result that capital spending is much lower than envisaged in our forecast at the beginning of the year.

The bulk of the total capital expenditure after deducting investment grants – €57.8 million – was invested in the DEUTZ Compact Engines segment (2013: €69.2 million). Capital expenditure in DEUTZ Customised Solutions was €8.8 million (2013: €7.1 million). As was the case in 2013, investing activities in both segments focused on property, plant and equipment and on development expenditure.

NET ASSETS

Overview of the DEUTZ Group's assets

	31 Dec 2014	31 Dec 2013	Change
€ million			
Non-current assets	625.8	627.4	–1.6
Current assets	523.0	493.2	29.8
Assets classified as held for sale	0.4	0.4	–
Total assets	**1,149.2**	**1,121.0**	**28.2**
Equity	511.0	504.7	6.3
Non-current liabilities	322.7	292.5	30.2
Current liabilities	315.5	323.8	8.3
Total equity and liabilities	**1,149.2**	**1,121.0**	**28.2**
Working capital (€ million)	196.2	172.3	23.9
Working capital ratio at the balance sheet date (%)	12.8	11.9	0.9
Working capital ratio (average, %)	13.3	12.0	1.3
Equity ratio (%)	44.5	45.0	–0.5

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

Non-current assets Non-current assets of the DEUTZ Group totalled €625.8 million as at 31 December 2014 (31 December 2013: €627.4 million). This slight decrease was primarily attributable to the change in property, plant and equipment and intangible assets. Because the production launch of the new engines for the EU Stage IV/US Tier 4 emissions standards had been completed, we reduced our investing activities in this area as planned. The additions to property, plant and equipment amounting to €37.0 million and to intangible assets amounting to €29.6 million were offset by higher depreciation charges of €51.6 million and higher amortisation charges of €55.9 million. In addition to higher depreciation and

[1] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities.
[2] Free cash flow: cash flow from operating and investing activities minus net interest expense.