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

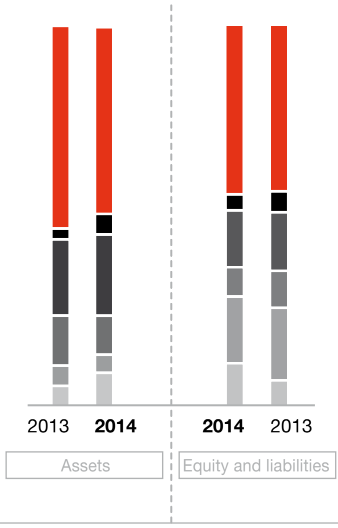
[1] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial liabilities.
[2] Free cash flow: cash flow from operating and investing activities minus net interest expense.

DEUTZ Group: Balance sheet structure

in % (2013 figures)

Assets

49.0	(53.2)	Non-current assets
5.4	(2.8)	Deferred taxes
21.3	(20.0)	Inventories
10.6	(13.3)	Trade receivables
4.8	(5.4)	Other receivables and assets
8.9	(5.3)	Cash and cash equivalents



Equity and liabilities

44.5	(45.0)	Equity
4.2	(4.8)	Other liabilities
14.9	(18.0)	Trade payables
7.7	(8.1)	Financial liabilities
17.5	(16.4)	Pension provisions
11.2	(7.7)	Other provisions

amortisation expenses, changes in market forecasts and adverse economic developments in key markets made it necessary to recognise impairment losses on property, plant and equipment (€2.1 million) and intangible assets (€9.2 million).

Current assets Current assets were also higher than at the end of 2013, having risen by €29.8 million to €523.0 million (31 December 2013: €493.2 million). This year-on-year change was mainly attributable to higher cash and cash equivalents at the year end.

Working capital Working capital as at 31 December 2014 amounted to €196.2 million (31 December 2013: €172.3 million). The year-on-year increase of €23.9 million was mainly caused by higher levels of inventories and lower trade payables, while trade receivables were also lower. In association with this change in working capital, there was also an increase in the working capital ratio, i.e. the ratio of working capital (inventories plus trade receivables less trade payables) to revenue. As at the balance sheet date, this ratio was 12.8 per cent compared with 11.9 per cent as at 31 December 2013. The average working capital ratio, i.e. the ratio of average working capital at the four quarterly reporting dates to the revenue for twelve months, had also deteriorated year on year. It was 12.0 per cent in 2013 but 13.3 per cent in 2014, although this was a slight improvement on the 14.0 per cent that we had expected at the beginning of the year. This rise was related to the changes to the emissions standard in Europe and the United States.

Unrecognised intangible DEUTZ assets In addition to the assets recognised on the balance sheet, DEUTZ has further assets that are not recognised. The DEUTZ brand is synonymous with highly sophisticated technology, quality and reliability and the Company has been a firmly established player in the equipment manufacturing and operating industry for more than 150 years. DEUTZ also enjoys long-standing valuable relationships with customers; it has entered into long-term cooperation agreements, particularly with its key customers.

Equity ratio As at 31 December 2014, equity stood at €511.0 million (31 December 2013: €504.7 million). The main reasons for the increase of €6.3 million were the level of net income in the reporting year and positive effects of translating our subsidiaries' financial statements that are prepared in foreign currencies. However, these effects were partly offset by expenses resulting from lower discount rates used in the measurement of pension liabilities and the payment of the dividend for 2013. At the end of 2014, the equity ratio was 44.5 per cent (31 December 2013: 45.0 per cent) and matched the target specified at the start of the year of above 40.0 per cent).

Non-current liabilities Non-current liabilities at 31 December 2014 had risen to €322.7 million (31 December 2013: €292.5 million). The increase of €30.2 million was largely attributable to higher provisions for pensions and other post-retirement benefits due to the fall in discount rates, the unexpected rise in provisions for warranty costs and the recognition of restructuring provisions relating to our decision to optimise our network of sites. The decline in financial liabilities partly offset this increase. Loan repayments due in the coming months were reclassified from non-current to current.

Current liabilities In contrast, current liabilities declined by €8.3 million to €315.5 million (31 December 2013: €323.8 million). A sharp fall in trade payables was the main reason for this decrease, but it was partly offset by the unexpected increase in provisions for warranty costs.

As at 31 December 2014, total assets amounted to €1,149.2 million, a year-on-year increase of €28.2 million (31 December 2013: €1,121.0 million).