Interim report for the

FIRST HALF OF 2021

DEUTZ AG

DEUTZ GROUP: OVERVIEW

€ million

	Q1–Q2/2021	Q1–Q2/2020	Change	Q2/2021	Q2/2020	Change
New orders	1,028.8	623.6	65.0%	564.0	266.9	111.3%
Unit sales (units)	93,627	73,859	26.8%	55,243	33,790	63.5%
thereof Torqeedo	18,196	16,244	12.0%	12,061	7,721	56.2%
Revenue	770.2	620.0	24.2%	426.8	280.2	52.3%
EBIT	16.1	–49.9	–	15.7	–38.1	–
thereof exceptional items[1]	–0.7	0.0	–	–0.3	0.0	–
Operating profit / loss (EBIT before exceptional items)	16.8	–49.9	–	16.0	–38.1	–
EBIT margin (%)	2.1	–8.0	+10.1 PP	3.7	–13.6	+17.3 PP
EBIT margin (before exceptional items, %)	2.2	–8.0	+10.2 PP	3.7	–13.6	+17.3 PP
Net income	13.3	–52.3	–	14.2	–42.3	–
Net income before exceptional items	14.0	–52.3	–	14.5	–42.3	–
Earnings per share (€)	0.11	–0.43	–	0.12	–0.35	–
Earnings per share (before exceptional items, €)	0.12	–0.43	–	0.12	–0.35	–
Equity	555.1	596.4	–6.9%	555.1	596.4	–6.9%
Equity ratio (%)	44.3	48.5	–4.2 PP	44.3	48.5	–4.2 PP
Cash flow from operating activities	44.7	–43.7	–	27.6	–31.8	–
Free cash flow	9.7	–85.7	–	11.4	–50.2	–
Net financial position	–84.3	–117.8	28.4%	–84.3	–117.8	28.4%
Employees[2] (Jun. 30)	4,631	4,673	–0.9%	4,631	4,673	–0.9%

[1] Significant income generated or expenses incurred outside the scope of the Company’s ordinary business activities that are unlikely to recur.

[2] Number of employees expressed in FTEs (full-time equivalents); excluding temporary workers.

STRATEGIC AND OPERATIONAL HIGHLIGHTS

- Significant new order growth; orders on hand up by around 110 percent year on year
- Double-digit percentage increases in unit sales and revenue
- Significant improvement in operating profit, partly owing to increasingly tangible cost savings
- Free cash flow in positive territory
- Rigorous implementation of strategic growth initiatives; successful expansion of high-margin service portfolio
- DEUTZ has joined the UN Global Compact
- Confirmation of raised full-year guidance for 2021 despite the supply situation remaining difficult; guidance for free cash flow adjusted

CONTENTS

FUNDAMENTAL FEATURES OF THE GROUP

BUSINESS MODEL AND STRATEGY

The DEUTZ Group's core competencies are the development, production, and distribution of drive solutions with a power output of 20 to 620 kW for off-highway applications. The Company was founded in 1864 and has around 4,600 employees worldwide. Its portfolio extends from diesel and gas engines to hybrid and all-electric drives that are used in various applications, including construction equipment, agricultural machinery, material handling equipment such as forklift trucks and lifting platforms, commercial vehicles, rail vehicles, and boats used for private or commercial purposes. DEUTZ also offers a comprehensive range of analog and digital services through more than 800 sales and service partners in over 130 countries.

The Company's operating activities are divided into three segments: DEUTZ Compact Engines (DCE), DEUTZ Customized Solutions (DCS), and Other. The DCE segment, which generated around 73 percent of consolidated revenue in 2020, comprises liquid-cooled engines with capacities of up to 8 liters and the equity-accounted joint venture with Chinese construction equipment manufacturer SANY. The DCS segment comprises liquid-cooled engines with capacities of over 8 liters, air-cooled drives, reconditioned exchange engines and parts produced under the name Xchange, and engine series that are soon to be discontinued. The DCS segment's share of revenue in 2020 was around 24 percent. Torqeedo, a subsidiary specializing in electric drives for boats, and Futavis, a development services provider for high-voltage batteries, are consolidated in the Other segment.

The DEUTZ Group's primary objective is to become the world's leading manufacturer of innovative drive systems and a trailblazer of off-highway technology for a carbon-neutral future. At the same time, the Company wants to achieve profitable and sustainable growth and has set itself clear medium-term targets for 2023/2024: revenue in excess of €2 billion and an EBIT margin before exceptional items of between 7 percent and 8 percent.

In addition to the ongoing development of the portfolio of drive systems, a core aspect of the growth strategy is the expansion and digitalization of the high-margin service business. DEUTZ positions itself as a full-service provider, offering a range of services covering the entire product lifecycle. In the first half of 2021, for example, DEUTZ launched a Lifetime Parts Warranty for engines that have been registered with DEUTZ online and expanded its service portfolio to include Lifecycle Solutions. This means that customers can now obtain the right DEUTZ products for every stage of their engine's lifecycle.

The strategic focus of the Company's regional growth initiatives is primarily on China and on expansion of the network of dealers and service outlets in the USA.

DEUTZ aims to achieve its financial objectives while fulfilling its social, corporate, and environmental responsibilities. The Company is therefore continually strengthening its commitment to sustainability and signed up to the United Nations Global Compact at the end of March 2021. In doing so, the Company voluntarily undertook – on the basis of ten universally accepted principles – to promote human rights, fair working conditions, environmental protection, and the fight against corruption.

Further information on the overarching corporate strategy can be found on page 22 onward of the 2020 annual report.

TRANSFORM FOR GROWTH

At the start of 2020, DEUTZ launched a Company-wide efficiency program, Transform for Growth, in order to maintain its long-term competitiveness at global level and secure its earnings performance in a challenging market environment. The program's main areas of action are primarily aimed at optimizing the global production network, automating and digitalizing operational and administrative processes, and reducing complexity across the Group. By implementing an action plan to achieve these aims, the Company intends to realize gross annual cost savings from the end of 2022 of around €100 million compared with the base year of 2019.

As well as adjusting operating and warranty costs, some of the savings are to be achieved by significantly reducing staff costs. In order to minimize the social impact for all employees, DEUTZ introduced a voluntary redundancy program in September 2020 for its sites in Germany, originally for up to 350 employees. By the time that the program finished on March 31, 2021, it had been taken up by 361 employees in total.

Further information on the Transform for Growth efficiency program can be found on page 25 onward of the 2020 annual report.

MACROECONOMIC AND INDUSTRY-SPECIFIC ENVIRONMENT

ECONOMIC ENVIRONMENT

In the first half of 2021, the global economy continued to recover despite the adverse impact of the pandemic. In its economic report published in April 2021, the International Monetary Fund (IMF) estimated that global economic activity in 2021 would increase by 6 percent compared with 2020.[1]

According to data from the United Nations (UNCTAD), global trade picked up by roughly 10 percent in the first quarter of 2021 compared with the first quarter of 2020. The increase compared with the fourth quarter of 2020 was around 4 percent. For the second quarter of 2021, the UN expects even stronger growth of up to 31 percent due to the low prior-year figure.[2]

Measures taken around the world in 2020 to contain the spread of the pandemic, such as travel restrictions and lockdowns, were at their height between mid-March and mid-May 2020, thereby disrupting transport, tourism, consumer spending and, as a result, macroeconomic activity. The growth rates stated above show that the global economy was much more robust in the first half of 2021, despite significantly higher global case numbers[3] and similar restrictions as in 2020.

SALES MARKET

The market data currently available to us shows that the individual markets of relevance to DEUTZ mostly delivered positive performances in the first half of 2021, despite (in some cases significant) supply bottlenecks in upstream industries.

According to the latest data provided by Germany's Mechanical Engineering Industry Association (VDMA), the global market for construction equipment remained robust throughout the coronavirus pandemic and is benefiting from large-scale public spending programs and government-backed infrastructure projects. Unit sales in the construction equipment segment in Europe and North America are therefore expected to have increased significantly year on year in the first half of 2021 and the boom in the Chinese market for construction equipment also seems to be continuing unabated.[4]

Demand for material handling applications has been following the trend in the construction industry. Unit sales of forklift trucks in Europe, North America, and Asia, for example, increased overall.[5] Unit sales in the business with smaller construction equipment and other material handling applications, e.g. telehandlers and work platforms, are also expected to have grown, in part because major international leasing companies have significantly ramped up investment in their company fleets again.[6]

The market for agricultural machinery, especially for tractors, grew overall in the first half of 2021, although trends varied significantly at regional level. North America and Europe saw (in some cases strong) growth in unit sales, driven by factors such as rising agricultural prices. Unit sales in the Chinese market had been declining for a long time but, thanks to government-ordered structural adjustments, now seem to be stabilizing at a new level where investment in more powerful machinery that is able to meet the challenges of the future is offsetting falling unit sales of traditional, lower-powered equipment.[7]

PROCUREMENT MARKET

The procurement market was very tight during the reporting season with regard to numerous important components and input materials. This was primarily due to worldwide bottlenecks in the supply of materials, particularly electronics, plastic, and steel, which resulted in significant allocation arrangements in the global market. The fallout from the coronavirus pandemic and the disruptions in the EU caused by Brexit have also led to a huge shortage of global freight and transportation capacity, causing massive delays to the delivery of materials in the supply chain as well as price increases. The situation was further exacerbated for shipments from and to Asia in the first quarter of 2021, firstly due to a ship getting stuck and blocking the Suez Canal for almost a week and secondly due to disruptions to operations in major Chinese ports as a result of a renewed rise in coronavirus cases.[8]

DEUTZ strengthened its existing risk management system in 2020 in order to counteract coronavirus-related supply bottlenecks. The established measures for safeguarding the supply situation continue to include the greater use of existing second-source suppliers, the procurement of stocks of finished parts from suppliers in high-risk regions, the creation of increased inventory ranges, and the organization of special shipments.

In the first half of 2021, global commodity prices climbed sharply compared with their levels in 2020. Prices for cast-iron scrap were around 42 percent higher than their average for 2020[9], while prices for aluminum and steel were 23 percent[10] and 78 percent,[11] respectively, above their prior-year levels. Among the precious metals, rhodium , for example, saw a huge price rise of around 150 percent.[12] This is due to a general shortage of supply that is attributable to the global economic upturn in industry, the resulting increase in demand and, in particular, mine closures during lockdowns imposed because of coronavirus.

1 IMF, World Economic Outlook, April 2021.
2 UNCTAD, Global Trade Update, May 2021.
3 www.corona-in-zahlen.de/weltweit.
4 VDMA 'Construction equipment and building material machinery', June 2021.
5 FEM 'World industrial truck statistics (WITS)', Q1 2021 update, May 2021.
6 Quarterly reports of major leasing companies such as United Rentals.
7 Power Systems Research, 'OE Link Update Bulletin – Q2 2021', July 2021.
8 IfW, Kiel Institute Economic Outlook: World Economy Summer 2021, June 2021.
9 www.bdguss.de.
10 www.lme.com.
11 www.bdsv.org.
12 www.platinum.matthey.com/prices/price-tables.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

In the first half of 2020, business performance in the DEUTZ Group had been exceptionally badly affected by a huge drop in demand as a result of the coronavirus pandemic. In the reporting period, however, the ongoing pandemic did not directly have any significant negative impact on demand. DEUTZ has continued to benefit from an accelerating market recovery in all major application segments. As early as the first quarter, this resulted in a better business performance than had been forecast at the beginning of the year, which in April prompted the Company to raise its guidance for 2021 as a whole.[1]

New orders in June 2021 were boosted by around €100 million due to the one-off effects of spending being brought forward, which helps to explain why the increase in new orders was higher relative to the increase in unit sales and revenue as described in the following section. This situation came about mainly because of customer orders being brought forward in response both to price adjustments and to longer lead times resulting from global material shortages and logistics bottlenecks (see also ‘Procurement market’, p. 7).

NEW ORDERS

DEUTZ Group: New Orders

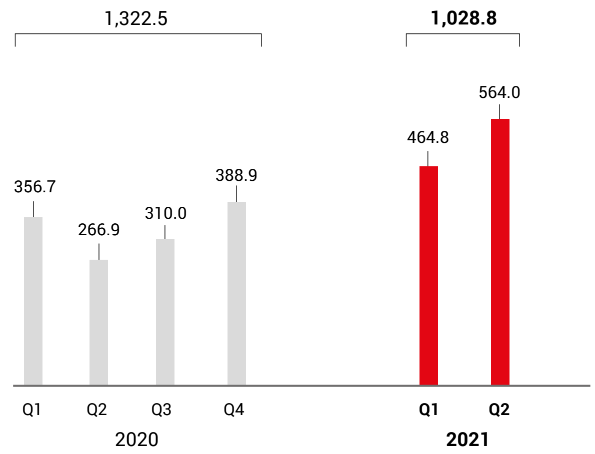
€ million

In the first half of 2021, new orders received by DEUTZ increased by 65.0 percent year on year to €1,028.8 million. Owing to a sharp increase in customers’ propensity to proceed with capital expenditure, all regions and application segments achieved double-digit growth. In the Material Handling application segment, new orders actually more than doubled compared with the prior-year period (up by 123.0 percent).

In the high-margin service business, which is a key pillar of DEUTZ’s growth strategy, the volume of new orders rose by 19.7 percent year on year to reach €205.0 million. A key factor in this increase, in addition to parts sales, was the business with DEUTZ Xchange engines. Growth in new orders in the service business was much lower than in the other application segments because it had been less badly affected by the coronavirus pandemic in the prior-year period.

DEUTZ Group: New orders by quarter

€ million



The volume of new orders in the second quarter of 2021 went up by 111.3 percent year on year to €564.0 million. There was a particularly sharp increase in demand in the Material Handling segment, where new orders were up by 269.1 percent compared with the prior-year period.

As at June 30, 2021, the DEUTZ Group’s orders on hand totaled €531.3 million (June 30, 2020: €253.5 million). Orders on hand in the service business were up by 62.5 percent to €35.1 million.

[1] See ad hoc disclosure dated April 19, 2021.

UNIT SALES

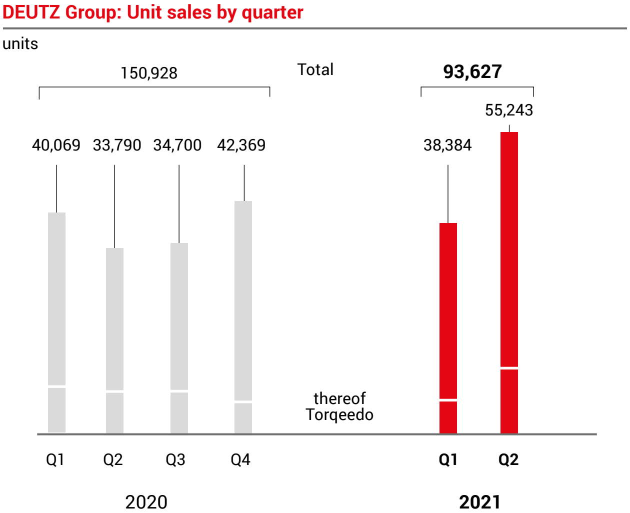
DEUTZ Group: Unit sales

With a total of 93,627 engines sold, the DEUTZ Group registered an increase in unit sales of 26.8 percent in the reporting period. The number of DEUTZ engines[1] sold amounted to 75,431, a rise of 30.9 percent. The DEUTZ subsidiary Torqeedo sold 18,196 electric boat drives, which was 12.0 percent more than in the first half of 2020.

Nearly all the individual application segments recorded strong growth in unit sales. Only Stationary Equipment fell short of the level in the prior-year period. This was due to a decrease in demand for gensets that was particularly pronounced in the Americas region.

The EMEA region, which is currently DEUTZ's largest sales market, saw the sharpest rise (up by 34.3 percent). This growth was driven primarily by the Material Handling application segment, whose unit sales nearly doubled.

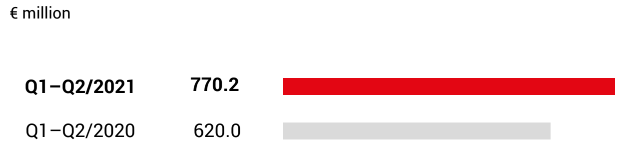
DEUTZ Group: Unit sales by quarter



In the second quarter of 2021, the Group's unit sales advanced by 63.5 percent compared with the equivalent quarter of the prior year, with all regions and major application segments contributing to this increase. Unit sales of DEUTZ engines[1] were up by 65.6 percent to 43,182, while Torqeedo sold 12,061 electric drives, a rise of 56.2 percent.

REVENUE

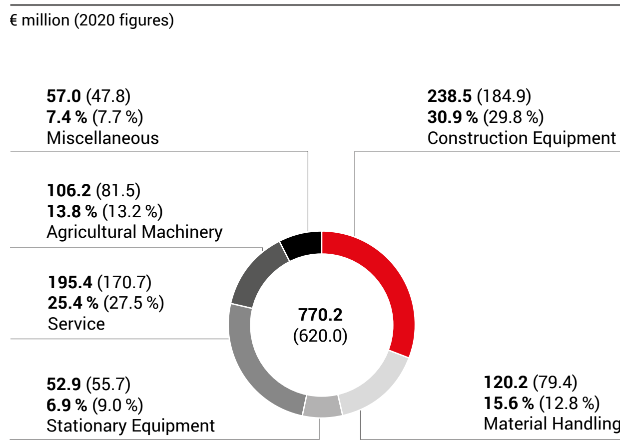
DEUTZ Group: Revenue



Reflecting the growth in unit sales, DEUTZ generated consolidated revenue of €770.2 million in the first half of 2021. This year-on-year increase of 24.2 percent was attributable to all application segments except for Stationary Equipment. In line with the fall in its unit sales, this application segment's revenue decreased by 5.0 percent year on year due to a decline in demand for gensets.

Service revenue rose by 14.5 percent to €195.4 million in the reporting period. This means that DEUTZ is on track to achieve its target revenue of around €400 million for the high-margin service business in 2021.

DEUTZ Group: revenue and share of revenue by application segment

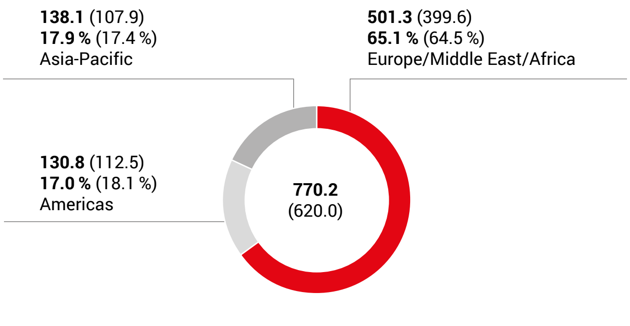


All regions contributed to the increase in revenue with double-digit percentage growth rates. The German sales market saw a particularly sharp rise of 31.5 percent. In terms of other notable trends in specific countries, China, the biggest sales market for our regional growth strategy, advanced its revenue by 40.4 percent compared with the first half of 2020 to reach €76.4 million.

[1] Excluding electric boat drives from DEUTZ subsidiary Torqeedo.

DEUTZ Group: revenue and share of revenue by region

€ million (2020 figures)

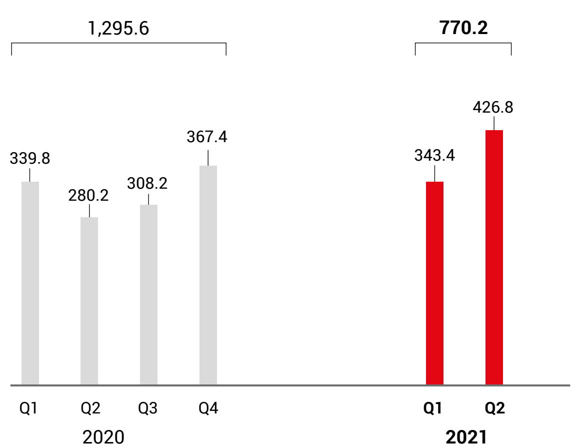


Consolidated revenue in the second quarter of 2021 came to €426.8 million. This was up by 52.3 percent on the equivalent period of the prior year, which had been particularly badly affected by the sharp drop in demand caused by the pandemic.

All regions and nearly all application segments recorded double-digit increases in revenue. The Stationary Equipment application segment, whose revenue was down overall in the half-year period, registered year-on-year revenue growth of 9.0 percent in the second quarter.

DEUTZ Group: Revenue by quarter

€ million



[1] Exceptional items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities that are unlikely to recur.

EARNINGS

DEUTZ Group: overview of results of operations

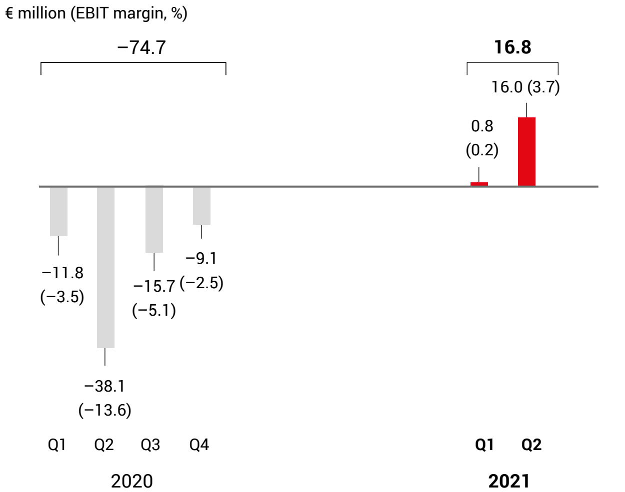
€ million

	Q1–Q2/2021	Q1–Q2/2020	Change
Revenue	**770.2**	**620.0**	**24.2 %**
Cost of sales	–631.0	–534.8	18.0 %
Research and development costs	–45.9	–49.6	–7.5 %
Selling and administrative expenses	–79.7	–75.6	5.4 %
Other operating income	12.0	6.2	93.5 %
Other operating expenses	–10.9	–15.8	–31.0 %
Impairment of financial assets and reversals thereof	–1.1	–1.4	21.4 %
Profit/loss on equity-accounted investments	2.5	1.1	127.3 %
EBIT	**16.1**	**–49.9**	**–**
thereof exceptional items[1]	–0.7	0.0	–
Operating profit/loss (EBIT before exceptional items)	**16.8**	**–49.9**	**–**
Interest income	0.1	0.3	–66.7 %
Interest expense	–2.9	–1.8	61.1 %
Other financial income/finance costs	0.0	–0.2	–
Financial income, net	**–2.8**	**–1.7**	**–64.7 %**
Income taxes	0.0	–0.7	–
Net income	**13.3**	**–52.3**	**–**

[1] Significant income generated or expenses incurred outside the scope of the Company's ordinary business activities that are unlikely to recur.

In the first half of 2021, EBIT before exceptional items[1] (operating profit/loss) improved to a profit of €16.8 million from the low level recorded for the prior-year period (H1 2020: loss of €49.9 million), which had been very badly affected by the coronavirus pandemic, by payments made under continuation agreements with suppliers going through insolvency proceedings, and by impairment losses recognized on capitalized development projects. This significant improvement was mainly attributable to the growth in the volume of business and the associated economies of scale. Earnings were further boosted by the increasingly noticeable effect of cost savings resulting from the restructuring process. The EBIT margin before exceptional items also improved significantly year on year, from minus 8.0 percent to plus 2.2 percent.

DEUTZ Group: Operating profit (EBIT before exceptional items) by quarter



EBIT amounted to a profit of €16.1 million in the reporting period (H1 2020: loss of €49.9 million). This figure takes account of exceptional items[1] amounting to an expense of €0.7 million that related to the efficiency program initiated at the start of 2020. The EBIT margin came to 2.1 percent (H1 2020: minus 8.0 percent).

Reflecting the increase in operating profit, net income improved to €13.3 million in the first half of 2021 (H1 2020: net loss of €52.3 million). Earnings per share improved from minus €0.43 to plus €0.11 as a result. Net income before exceptional items stood at €14.0 million; earnings per share before exceptional items came to approximately €0.12.

[1] Exceptional items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities that are unlikely to recur.

BUSINESS PERFORMANCE IN THE SEGMENTS

DEUTZ Group: segments

€ million

	Q1–Q2/2021	Q1–Q2/2020	Change
New orders			
DEUTZ Compact Engines	808.2	439.9	83.7 %
DEUTZ Customized Solutions	182.3	165.4	10.2 %
Other	39.8	19.5	104.1 %
Consolidation	–1.5	–1.2	–25.0 %
Total	**1,028.8**	**623.6**	**65.0 %**
Unit sales (units)			
DEUTZ Compact Engines	67,399	48,173	39.9 %
DEUTZ Customized Solutions	8,032	9,442	–14.9 %
Other	18,196	16,244	12.0 %
Consolidation	0	0	-
Total	**93,627**	**73,859**	**26.8 %**
Revenue			
DEUTZ Compact Engines	589.5	453.7	29.9 %
DEUTZ Customized Solutions	153.7	145.0	6.0 %
Other	28.5	22.5	26.7 %
Consolidation	–1.5	–1.2	–25.0 %
Total	**770.2**	**620.0**	**24.2 %**
EBIT			
DEUTZ Compact Engines	0.3	–49.8	-
DEUTZ Customized Solutions	17.5	6.6	165.2 %
Other	–1.0	–6.7	85.1 %
Consolidation	0.0	0.0	–
Total	**16.8**	**–49.9**	**–**

DEUTZ COMPACT ENGINES (DCE)

DEUTZ Compact Engines

	Q1–Q2/2021	Q1–Q2/2020	Change
New orders (€ million)	808.2	439.9	83.7 %
Unit sales (units)	67,399	48,173	39.9 %
Revenue (€ million)	589.5	453.7	29.9 %
EBIT (€ million)[1]	0.3	–49.8	–
EBIT margin (%)[1]	0.1	–11.0	+11.1 PP

[1] Before exceptional items.

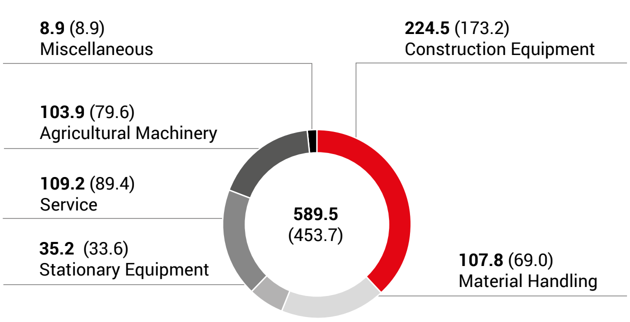
In the first half of 2021, new orders in the DEUTZ Compact Engines (DCE) segment went up by 83.7 percent to €808.2 million, with all application segments recording double- or triple-digit percentage growth. New orders in the service business rose by 25.1 percent to €111.3 million, which was attributable to growing demand in parts sales and in the on-site customer service business. At €404.1 million, orders on hand in the DCE segment were up by 150.4 percent on the figure at the end of the first half of 2020.

The segment's unit sales increased by 39.9 percent year on year to 67,399 engines, while its revenue advanced by 29.9 percent to €589.5 million. The lower rise in revenue, relative to the rise in unit sales, was mainly the result of negative product mix effects.

The operating profit/loss for the segment (EBIT before exceptional items) improved by €50.1 million year on year to a profit of €0.3 million. This increase was due not only to the much higher volume of business and the associated economies of scale but also to cost savings resulting from the restructuring process. In addition, operating profit for the segment in the prior-year period had been adversely affected by payments made under continuation agreements with suppliers and by demand-related impairment losses recognized on a development project.

DEUTZ Compact Engines: revenue by application segment

€ million (2020 figures)



DEUTZ CUSTOMIZED SOLUTIONS (DCS)

DEUTZ Customized Solutions

	Q1–Q2/2021	Q1–Q2/2020	Change
New orders (€ million)	182.3	165.4	10.2 %
Unit sales (units)	8,032	9,442	–14.9 %
Revenue (€ million)	153.7	145.0	6.0 %
EBIT (€ million)[1]	17.5	6.6	165.2 %
EBIT margin (%)[1]	11.4	4.6	+6.8 PP

[1] Before exceptional items.

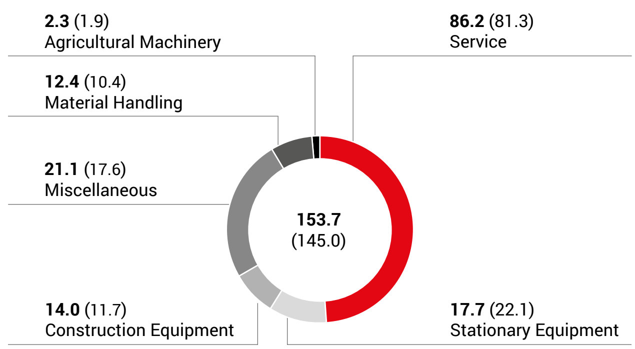
In the first half of 2021, new orders received by the DEUTZ Customized Solutions (DCS) segment increased by 10.2 percent year on year to €182.3 million. All the main application segments contributed to this growth. The only application segment to record a decrease in new orders was Miscellaneous (down by 23.3 percent), which in the prior-year period had been boosted by a high volume of orders as a result of DEUTZ winning tenders for rail vehicle projects. New orders in the service business rose by 13.9 percent to €93.7 million, primarily because of rising demand for exchange engines and in parts sales. Orders on hand as at June 30, 2021 totaled €104.8 million, which was 26.6 percent higher than a year earlier.

Unit sales in the DCS segment declined by 14.9 percent to 8,032 engines. In addition to a decrease in unit sales in the Stationary Equipment application segment, this was due largely to a fall in demand for older engine series, particularly in the EMEA and Americas regions. Nevertheless, segment revenue advanced by 6 percent to €153.7 million. This growth in revenue despite the decline in unit sales resulted from the significant expansion of the CKD (completely knocked down) business and the increase in the proportion of revenue generated by the service business.

Operating profit for the segment improved by €10.9 million to €17.5 million compared with the first half of 2020, which had been adversely affected by impairment losses recognized on two development projects as well as by other factors. This improvement was mainly attributable to cost savings resulting from the restructuring program and to the higher degree of vertical integration after crankcase processing had been insourced.

DEUTZ Customized Solutions: revenue by application segment

€ million (2020 figures)



OTHER

Other

	Q1–Q2/2021	Q1–Q2/2020	Change
New orders (€ million)	39.8	19.5	104.1 %
Unit sales (units)	18,196	16,244	12.0 %
Revenue (€ million)	28.5	22.5	26.7 %
EBIT (€ million)[1]	–1.0	–6.7	85.1 %
EBIT margin (%)[1]	–3.5	–29.8	+26.3 PP

[1] Before exceptional items.

The Other segment, which includes the business with electric drives for boats operated by DEUTZ subsidiary Torqeedo and the battery specialist Futavis, saw its new orders increase by 104.1 percent to €39.8 million in the first half of 2021. This growth was primarily driven by rising demand in the Americas and in the EMEA region. The segment's orders on hand as at June 30, 2021 totaled €22.4 million, which was 140.9 percent higher than a year earlier.

The segment's unit sales advanced by 12.0 percent to 18,196 electric boat drives, while its revenue was up by 26.7 percent to €28.5 million. Revenue rose at a faster rate than unit sales primarily because higher-value electric drives accounted for a larger proportion of sales.

The Other segment reported an operating loss of €1.0 million in the period under review. This year-on-year improvement of €5.7 million resulted mainly from the settlement reached with Torqeedo's former owners in the first quarter of 2021 regarding compensation for losses incurred due to a product recall in 2019 and from the increase in the volume of business generated by the Torqeedo companies.

FINANCIAL POSITION

FUNDING

In order to ensure sufficient liquidity, DEUTZ has at itsdisposal two syndicated working capital facilities that together total €310 million. One credit line of €160 millionruns until June 2024; a second credit line of €150 million runs until November 2021 and has an extension option. They are both unsecured, floating-rate facilities. The unutilized credit lines amount to around €245 million in total. DEUTZ also has short-term credit lines and makes use of loans with subsidized interest rates. Unlike in the prior-year period, no new loans were taken out.

As part of its contractual agreements, DEUTZ has undertaken to comply with certain financial covenants (ratio of financial debt to equity and to EBITDA). However, these do not place any restrictions on its ability to pursue growth projects. At no point during the reporting period was DEUTZ at risk of breaching these financial covenants.

The aforementioned funding instruments ensure that DEUTZ has access to sufficient funds for its operations and for its ongoing and planned growth projects.

CASH FLOW

DEUTZ Group: overview of financial position

€ million

	Q1–Q2/2021	Q1–Q2/2020	Change
Cash flow from operating activities	44.7	–43.7	–
Cash flow from investing activities	–32.5	–39.6	17.9%
Cash flow from financing activities	–15.6	58.3	–
Change in cash and cash equivalents	**–3.4**	**–25.0**	**86.4%**
Free cash flow[1] from continuing operations	**9.7**	**–85.7**	**–**
Cash and cash equivalents at Jun. 30/Dec. 31	62.0	64.7	–4.2%
Current and non-current interest-bearing financial debt at Jun. 30/Dec. 31	146.3	148.5	–1.5%
thereof lease liabilities	61.4	58.0	5.9%
Net financial position[2] at Jun. 30/Dec. 31	–84.3	–83.8	0.6%

[1] Cash flow from operating activities and from investing activities less interest expense.
[2] Cash and cash equivalents less current and non-current interest-bearing financial debt.

The increase in cash flow from operating activities compared with the prior-year period – when cash flow had been weakened by the pandemic – was predominantly due to the improvement in operating profit and a more favorable level of working capital.

Net cash used for investing activities was below the figure reported in the first half of 2020 because of the decrease in payments related to capital spending on property, plant and equipment and intangible assets.

The main factors affecting cash flow from financing activities were the repayment of lease liabilities and other scheduled repayments.

Cash flow from financing activities included payments of interest and principal in connection with leases amounting to €0.7 million and €7.5 million respectively (H1 2020: €0.6 million and €8.4 million respectively).

As a result of the improvement in cash flow from operating activities and the reduction in investing activities, free cash flow was up by €95.4 million year on year to €9.7 million.

Reflecting these changes in cash flow in the first half of 2021, net financial debt was slightly higher than at the end of 2020, rising by €0.5 million to €84.3 million as at June 30, 2021.

NET ASSETS

DEUTZ Group: overview of net assets

€ million

	Jun. 30, 2021	Dec. 31, 2020	Change
Non-current assets	687.4	687.8	−0.1 %
thereof right-of-use assets in connection with leases	59.2	57.3	3.3 %
Current assets	566.1	492.7	14.9 %
Total assets	**1,253.5**	**1,180.5**	6.2 %
Equity	555.1	535.2	3.7 %
Non-current liabilities	234.1	250.8	−6.7 %
thereof lease liabilities	48.0	44.0	9.1 %
Current liabilities	464.3	394.5	17.7 %
thereof lease liabilities	13.4	14.0	−4.3 %
Total equity and liabilities	**1,253.5**	**1,180.5**	6.2 %
Working capital[1] (€ million)	245.1	235.0	4.3 %
Working capital ratio[2] (Jun. 30, %)	17.0	18.1	−1.1 PP
Working capital ratio[3] (average, %)	17.4	21.8	−4.4 PP
Equity ratio[4] (%)	**44.3**	45.3	−1.0 PP

[1] Inventories plus trade receivables less trade payables.
[2] Working capital (inventories plus trade receivables less trade payables) as at the balance sheet date divided by revenue for the previous twelve months.
[3] Average working capital at the four quarterly reporting dates divided by revenue for the previous twelve months.
[4] Equity / total equity and liabilities.

The growth in the volume of orders and business meant that inventories and trade receivables were significantly higher as at June 30, 2021, which led to a rise in current assets. But because the figure for trade payables was also much higher, working capital increased only slightly. The working capital ratio at the balance sheet date and the average working capital ratio both decreased thanks to the rigorous management of working capital across the Group.

Despite the rise in equity, the equity ratio fell slightly from 45.3 percent as at the end of December 2020 to 44.3 percent. This was because total equity and liabilities advanced at a faster rate than equity due to the aforementioned increase in current assets and current liabilities.

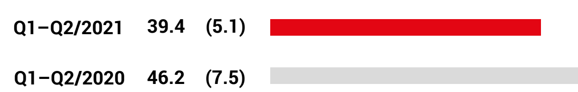
In view of the still very sound equity ratio, which continues to be above the target figure of more than 40 percent, the DEUTZ Group's financial position remains comfortable. Moreover, the Company has unutilized credit lines totaling around €245 million at its disposal.

RESEARCH AND DEVELOPMENT

Expenditure on research and development (R&D) in the first half of 2021 amounted to €41.9 million, compared with €46.6 million in the first half of 2020. After the deduction of grants received from development partners and subsidies, expenditure fell from €46.2 million in the prior-year period to €39.4 million. Whereas less was spent on new developments and refinements as well as support for existing engine series, there was a modest increase in research expenditure. Capitalized development expenditure after deducting grants amounted to €3.2 million. The R&D ratio[1] after deducting grants fell from 7.5 percent in the prior-year period to 5.1 percent in the first half of 2021.

Research and development expenditure (after deducting grants)[1]

€ million (R&D ratio in %)



[1] Research and development expenditure after deducting grants from development partners and subsidies.

[1] The ratio ot net development expenditure to consolidated revenue.

EMPLOYEES

DEUTZ Group: overview of the workforce[1]

Number

	Jun. 30, 2021	Jun. 30, 2020
DEUTZ Group	**4,631**	**4,673**
Thereof		
In Germany	3,182	3,439
Outside Germany	1,449	1,234
Thereof		
Non-salaried employees	2,536	2,580
Salaried employees	2,010	1,997
Trainees	85	96

[1] Number of employees expressed in FTEs (full-time equivalents); excluding temporary workers.

As at June 30, 2021, the DEUTZ Group had 4,631 employees[1] worldwide, which was 42 fewer than at the end of the first half of 2020. The number of employees in Germany was down by 257.

At around 69 percent, the bulk of the Group's workforce[1] was based in Germany. Of the 3,182 employees in Germany, 2,390 worked at the Company's headquarters in Cologne.

The voluntary redundancy program launched on September 1, 2020 had been taken up by a total of 361 employees by the time that it finished on March 31, 2021. This led to 109 employees leaving the Company. See also 'Transform for Growth', p. 6. The overall Group headcount does not fully reflect this decrease, however. This is due to the rise in the number of consolidated entities at the end of 2020 (e.g. the operating sales companies DEUTZ Austria, Motorcenter Austria, and Pro Motor Servis CZ) and, in particular, an increase in the number of temporary workers at the Spanish subsidiary DEUTZ Spain that was necessary because of the sharp increase in production volume. The workforce in China was expanded as well, owing to the growth initiatives that we are implementing there.

The number of temporary workers increased from 78 to 372 because of the sharp year-on-year increase in production volume. They now make up around 7 percent of the total workforce.[2]

[1] Number of employees expressed in FTEs (full-time equivalents); excluding temporary workers.
[2] Number of DEUTZ Group employees expressed in FTEs including temporary workers.

RISK AND OPPORTUNITY REPORT

DEUTZ operates in a variety of industries and regions worldwide and manages its business through various organizational units, namely the operating segments of the Group's parent company, subsidiaries, sales offices, and authorized agents. This organizational structure presents the Company with both opportunities and business-specific risks.

The level of new orders in the first half of 2021, orders on hand as at June 30, 2021, and the latest economic forecasts (see also 'Outlook', p. 18) indicate that the market risks described in the 2020 annual report have declined significantly despite the continued uncertainty created by the ongoing coronavirus pandemic. DEUTZ has therefore lowered the level of market risk with regard to the attainment of its financial targets in 2021 from 'moderate' to 'low'. DEUTZ continues to categorize the level of procurement risk as 'moderate' in view of the measures in place to minimize these risks.

In the first half of 2021, DEUTZ did not identify any risks or opportunities beyond those described in the 2020 annual report. There continue to be no risks to the Company's survival as a going concern.

The structure of the DEUTZ Group's risk management system is described in detail on page 59 onward of the 2020 annual report.

OUTLOOK FOR 2021

ECONOMIC OUTLOOK

Compared with its forecast from January 2021, the International Monetary Fund (IMF) has raised its global economic growth forecast for 2021 by 50 basis points. Global gross domestic product is now projected to grow at a rate of 6 percent for the year 2021. In particular, the IMF made upward adjustments to its forecast for consumer spending in most economies in light of the now widespread availability of COVID-19 vaccines in industrialized countries and some emerging markets. It also anticipates that fiscal policy measures announced by the EU and the US will have a positive impact on global economic growth.[1]

GDP growth forecast for 2021 and 2022[1]

Year-on-year change

	2021	2022
Global	6.0%	4.4%
Industrialized countries	5.1%	3.6%
Eurozone	4.4%	3.8%
Germany	3.6%	3.4%
US	6.4%	3.5%
Emerging markets	6.7%	5.0%
China	8.4%	5.6%

[1] IMF, World Economic Outlook, April 2021.

SECTORAL OUTLOOK

Based on currently available figures, we expect that key industries for sales of DEUTZ diesel engines will continue to perform well in 2021. We anticipate that worldwide progress with efforts to overcome the pandemic will result in a robust economic recovery in the second half of the year. This is attributable mainly to the fiscal stimulus packages adopted by the European Union and the United States and the easing of supply bottlenecks in upstream industries.[2] The Chinese economy is also expected to record healthy growth thanks to improving global economic conditions and government-backed infrastructure projects. Other countries in Asia, especially in Korea and Japan, should see moderate economic growth.[1]

Demand for construction equipment is expected to rise overall. In addition to the continuing upturn in the economy, particularly in housebuilding, the release of pent-up investment spending on public-sector projects in Europe and North America should boost demand. In China, the construction sector – a key driver of Chinese economic growth – is expected to contribute to sustained demand for construction equipment, although probably with a lower rate of growth than in previous years.[3]

Demand for material handling applications, especially forklift trucks, lifting platforms, and telehandlers, is set to grow overall across all regions. The increase in demand in Europe and North America will be driven in particular by the equipment leasing companies investing in their fleets, following significant cuts to investment budgets last year due to the pandemic.

We expect market conditions in the agricultural machinery segment to improve, although there may be significant variation across different core customer segments. For Europe, we anticipate moderate growth in light of higher agricultural prices. North America is likely to see growth as agricultural machinery manufacturers there are benefiting not only from rising agricultural prices but also from persistently high demand for soy and maize from China. As in Europe, the sales outlook for China points towards moderate growth. This is attributable to the fact that the Chinese economy is reaching the end of a structural transformation phase and that the potential for growth in the business with more powerful machines is likely to outweigh the decline in unit sales of smaller, traditional machines.

DEUTZ customer industries: forecast change in size of market in 2021[1,2]

YoY change in unit sales (%)

	Europe	North America	China
Construction Equipment	+5 – +10	+5 – +10	+5 – +10
Material Handling	+5 – +10	+5 – +10	+5 – +10
Agricultural Machinery	+5 – +10	+5 – +10	0 – +5

[1] Power Systems Research, 'OE Link Update Bulletin – Q2 2021', July 2021.
[2] VDMA/Agrievolution, 'Business & Market Development for Agri Machinery World', May 2021.

[1] IMF, World Economic Outlook, April 2021.
[2] European Central Bank, 'Macroeconomic projections', July 2021.
[3] Power Systems Research, 'OE Link Update Bulletin – Q2 2021', July 2021.

BUSINESS OUTLOOK

DEUTZ has made a good start to the year. However, it can be assumed that global problems with the supply of input materials will continue to weigh on business performance and that supply issues for certain components will persist in the third quarter. At the same time, it is still difficult to make predictions because of the ongoing nature of the pandemic.

Nevertheless, DEUTZ is confirming its revenue and earnings guidance for 2021, which it raised in the first quarter. This is based on its improved business performance in the first half of 2021 and the continuation of the upward trend in the global economy and in industries relevant to the Company. The unchanged projection for 2021 as a whole is therefore for unit sales of between 140,000 and 155,000 DEUTZ engines[1], which is expected to push up revenue to between €1.5 billion and €1.6 billion. The service business is predicted to generate around €400 million of this revenue. The anticipated increase in unit sales and revenue and the realization of further potential cost savings through the implementation of the efficiency program indicate that the EBIT margin before exceptional items is likely to be in a range of 1.0 percent to 2.0 percent.

In 2021, DEUTZ had been expecting to register a positive exceptional item of approximately €60 million in connection with the final installment of the purchase price for the sale of our former Cologne-Deutz site. As things stand, we no longer anticipate payment this year. The date and amount of the payment depend on when the development plan for the site is formally approved by the City of Cologne and so cannot be precisely forecast. Based on our current information and talks with all stakeholders, we now expect that the criteria needed to trigger payment of the final installment of the purchase price will be met in 2022.

Based on the anticipated upturn, which would likely significantly increase the amount of working capital needed, the cash outflows required for the restructuring program, and the anticipated incoming payment of the final installment of the purchase price for the sale of land, DEUTZ had projected that free cash flow for 2021 as a whole would be a negative amount in the low to mid-double-digit millions of euros. However, the current assumption is that the change in free cash flow will be much more favorable. This is due to the business performing much better than had been expected at the beginning of the year and the progress made in the ongoing optimization of working capital in the first half of 2021. Despite the fact that the outstanding purchase price installment is now not expected to be received until 2022, DEUTZ now expects free cash flow for the whole of 2021 to be a negative figure in the low double-digit millions of euros.

[1] Excluding electric boat drives from DEUTZ subsidiary Torqeedo.

OUTLOOK FOR 2023/2024

Assuming that the global economic recovery continues, DEUTZ is confirming its current guidance for 2023/2024. This envisages an increase in annual revenue to more than €2.0 billion and an EBIT margin before exceptional items in the range of 7 to 8 percent.

Ongoing internationalization and the expansion of the high-margin service business, together with the expected market growth in relevant industries for sales of DEUTZ engines, will remain key growth drivers.

The measures taken as part of the efficiency program in order to contain costs and raise efficiency will further underpin our profitability going forward.

In view of customers' increasing willingness to invest in alternative drive solutions, DEUTZ continues to anticipate that the proportion of consolidated revenue attributable to electric drive systems will increase to between 5 and 10 percent by 2023/2024.

Disclaimer This management report includes certain statements about future events and developments, together with disclosures and estimates provided by the Company. Such forward-looking statements include known and unknown risks, uncertainties and other factors that may mean that the actual performances, developments and results in the Company or those in sectors important to the Company are significantly different (especially from a negative point of view) from those expressly or implicitly assumed in these statements. The Board of Management cannot therefore make any guarantees with regard to the forward-looking statements made in this management report.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2021

INCOME STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	**1–6/2021**	1–6/2020
Revenue	**1**	**770.2**	**620.0**
Cost of sales		–631.0	–534.8
Research and development costs		–45.9	–49.6
Selling expenses		–49.5	–51.3
General and administrative expenses		–30.2	–24.3
Other operating income	2	12.0	6.2
Other operating expenses	3	–10.9	–15.8
Impairment of financial assets and reversals thereof		–1.1	–1.4
Profit/loss on equity-accounted investments		2.5	1.1
EBIT		**16.1**	**–49.9**
thereof exceptional items		–0.7	0.0
thereof operating profit (EBIT before exceptional items)		16.8	–49.9
Interest income		0.1	0.3
Interest expense		–2.9	–1.8
Other financial income / finance costs		0.0	–0.2
Financial income, net		**–2.8**	**–1.7**
Net income before income taxes		**13.3**	**–51.6**
Income taxes		0.0	–0.7
Net income		**13.3**	**–52.3**
thereof attributable to shareholders of DEUTZ AG		13.3	–52.3
thereof attributable to non-controlling interests		0.0	0.0
Earnings per share (basic/diluted, €)		**0.11**	**–0.43**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million	Note	**1–6/2021**	1–6/2020
Net income		**13.3**	**–52.3**
Amounts that will not be reclassified to the income statement in the future		**3.6**	**–3.0**
Remeasurements of defined benefit plans		**3.6**	–3.0
Amounts that will be reclassified to the income statement in the future if specific conditions are met		**3.0**	**–1.4**
Currency translation differences		4.5	–1.6
thereof profit/loss on equity-accounted investments		2.1	–1.2
Effective portion of change in fair value from cash flow hedges		–1.4	0.2
Fair value of financial instruments		–0.1	0.0
Other comprehensive income, net of tax	**4**	**6.6**	**–4.4**
Comprehensive income		**19.9**	**–56.7**
thereof attributable to shareholders of DEUTZ AG		19.9	–56.7
thereof attributable to non-controlling interests		0.0	0.0

BALANCE SHEET FOR THE DEUTZ GROUP

€ million

Assets	Note	**Jun. 30, 2021**	Dec. 31, 2020
Property, plant and equipment	5	362.5	361.7
Intangible assets	5	188.7	197.2
Equity-accounted investments		54.8	50.3
Other financial assets		4.7	4.4
Non-current assets (before deferred tax assets)		**610.7**	**613.6**
Deferred tax assets		76.7	74.2
Non-current assets		**687.4**	**687.8**
Inventories		324.7	274.2
Trade receivables		136.6	113.8
Other receivables and assets		34.8	32.8
Receivables in respect of tax refunds		8.0	7.2
Cash and cash equivalents		62.0	64.7
Current assets		**566.1**	**492.7**
Total assets		**1,253.5**	**1,180.5**

Equity and liabilities	Note	**Jun. 30, 2021**	Dec. 31, 2020
Issued capital		**309.0**	**309.0**
Additional paid-in capital		28.8	28.8
Other reserves		−0.9	−3.9
Retained earnings and accumulated income		218.0	201.1
Equity attributable to shareholders of DEUTZ AG		**554.9**	**535.0**
Non-controlling interests		0.2	0.2
Equity		**555.1**	**535.2**
Provisions for pensions and other post-retirement benefits		137.4	148.5
Deferred tax liabilities		0.5	0.6
Other provisions	7	33.4	37.5
Financial debt	6	57.1	58.3
Other liabilities		5.7	5.9
Non-current liabilities		**234.1**	**250.8**
Provisions for pensions and other post-retirement benefits		11.8	11.9
Other provisions	7	82.0	83.3
Financial debt	6	89.2	90.2
Trade payables		216.2	153.0
Liabilities arising from income taxes		2.2	2.0
Other liabilities		62.9	54.1
Current liabilities		**464.3**	**394.5**
Total equity and liabilities		**1,253.5**	**1,180.5**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

€ million

	Issued capital	Additional paid-in capital	Retained earnings & accumulated income	Fair value reserve[1,2]	Currency translation reserve[1]	Equity attributable to shareholders of DEUTZ AG	Non-controlling interests	Total
Balance at Jan. 1, 2020	**309.0**	**28.8**	**314.3**	**–0.4**	**0.5**	**652.2**	**0.2**	**652.4**
Net income			–52.3			–52.3	0.0	–52.3
Other comprehensive income			–3.0	0.2	–1.6	–4.4	0.0	–4.4
Comprehensive income			–55.3	0.2	–1.6	–56.7	0.0	–56.7
Changes to basis of consolidation			0.7			0.7		0.7
Balance at Jun. 30, 2020	**309.0**	**28.8**	**259.7**	**–0.2**	**–1.1**	**596.2**	**0.2**	**596.4**
Balance at Jan. 1, 2021	**309.0**	**28.8**	**201.1**	**1.1**	**–5.0**	**535.0**	**0.2**	**535.2**
Net income			13.3			13.3	0.0	13.3
Other comprehensive income			3.6	–1.5	4.5	6.6	0.0	6.6
Comprehensive income			16.9	–1.5	4.5	19.9	0.0	19.9
Changes to basis of consolidation			0.0			0.0		0.0
Balance at Jun. 30, 2021	**309.0**	**28.8**	**218.0**	**–0.4**	**–0.5**	**554.9**	**0.2**	**555.1**

[1] On the balance sheet these items are aggregated under 'Other reserves'.
[2] Reserves from the measurement of cash flow hedges and reserves from the measurement of financial instruments.

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	1–6/2021	1–6/2020
EBIT		**16.1**	**–49.9**
Income taxes paid		–4.5	–4.5
Depreciation, amortization and impairment of non-current assets		45.7	48.0
Profit/loss and impairment on equity-accounted investments		–2.2	–1.1
Other non-cash income and expenses		–0.4	0.7
Change in working capital		0.2	–6.6
Change in inventories		–48.1	–38.3
Change in trade receivables		–21.2	50.7
Change in trade payables		69.5	–19.0
Change in other receivables and other current assets		–3.2	38.8
Change in provisions and other liabilities (excluding financial liabilities)		–7.0	–69.1
Cash flow from operating activities		**44.7**	**–43.7**
Capital expenditure on intangible assets, property, plant and equipment		–32.6	–39.8
Proceeds from the sale of non-current assets		0.1	0.2
Cash flow from investing activities		**–32.5**	**–39.6**
Interest expense		–2.5	–2.4
Cash receipts from borrowings		0.0	87.2
Repayments of loans		–5.6	–18.1
Principal elements of lease payments		–7.5	–8.4
Cash flow from financing activities		**–15.6**	**58.3**
Cash flow from operating activities		44.7	–43.7
Cash flow from investing activities		–32.5	–39.6
Cash flow from financing activities		–15.6	58.3
Change in cash and cash equivalents		**–3.4**	**–25.0**
Cash and cash equivalents at Jan. 1		**64.7**	**55.3**
Change in cash and cash equivalents		–3.4	–25.0
Change in cash and cash equivalents related to exchange rates		0.7	–0.3
Change in cash and cash equivalents related to the basis of consolidation		0.0	0.3
Cash and cash equivalents at Jun. 30		**62.0**	**30.3**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2021

BASIC PRINCIPLES

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These interim financial statements for the period ended June 30, 2021 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Accounting Standards Board (IASB) regarding interim financial reporting (IAS 34) as adopted by the European Union. Consequently, these interim consolidated financial statements do not contain all the information and notes required by IFRS for consolidated financial statements for a full financial year, and should therefore be read in conjunction with the IFRS consolidated financial statements published for the 2020 financial year.

The condensed interim consolidated financial statements for the period ended June 30, 2021 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity, and selected notes to the consolidated financial statements – and the interim group management report for the period from January 1 to June 30, 2021 have been reviewed by an auditor pursuant to section 115 of the German Securities Trading Act (WpHG).

SIGNIFICANT ACCOUNTING POLICIES

With the exception of the amendments described below, the accounting policies used in the preparation of these interim consolidated financial statements are essentially the same as those used in the most recent consolidated financial statements for the year ended December 31, 2020. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2020.

'Interest Rate Benchmark Reform – Phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16) In August 2020, the IASB published the results of the second phase of its project that addresses interest rate benchmark reforms. The recognition of financial assets, financial liabilities, lease liabilities and hedges, and the disclosure requirements, are among the areas that are affected. Where the IBOR reform results in changes to the contractual cash flows, financial instruments are to be recognized using a practical expedient in which only the effective interest rate is updated. It should be noted with regard to hedge accounting that hedging relationships should be amended, but not necessarily discontinued, due to the IBOR reform provided that other qualifying criteria to apply hedge accounting are met. The amendments also require the disclosure of additional information, including on the application of the new interest rate benchmarks and the changes to the risk management strategy. Early adoption was permitted, but DEUTZ did not take up this option. There has been no material impact on the DEUTZ Group's consolidated financial statements since initial application.

'COVID-19-Related Rent Concessions' (Amendments to IFRS 16) In May 2020, the IASB added an exemption option to IFRS 16 'Leases' to address the accounting treatment of rent concessions granted to lessees as a result of the coronavirus pandemic. Lessees that exercise this option are exempt from the requirement to assess whether there has been a lease modification and do not need to recognize COVID-19-related rent concessions as lease modifications. As no COVID-19-related rent concessions have been granted to entities within the DEUTZ Group, its consolidated financial statements are not affected by these amendments.

If they are material, revenue-related and cyclical items are accrued during the year. Income taxes are calculated on the basis of the effective tax rate currently expected to apply to the DEUTZ Group for the full year.

Significant estimates and assumptions The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires estimates and assumptions to be made that have an impact on the recognition, measurement, and reporting of assets and liabilities, on the disclosure of contingent assets and liabilities as at the balance sheet date, and on the reporting of income and expenses in the period under review.

CHANGES IN THE BASIS OF CONSOLIDATION

With effect from January 1, 2021, the subsidiary Service Center Milan S.r.l, Milan, Italy, was merged with the subsidiary DEUTZ Italy S.r.l., Milan, Italy. This did not have any material impact on the Group's financial position or financial performance.

SELECTED EXPLANATORY DISCLOSURES

Selected explanatory disclosures relating to the interim consolidated financial statements are provided below. Further disclosures relating to the balance sheet, income statement, and cash flow statement as well as the segment reporting can be found in the interim group management report.

1. REVENUE

Breakdown of revenue by application segment in the first half of 2021

€ million

	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	**Total**
Construction Equipment	224.5	14.0			**238.5**
Material Handling	107.8	12.4			**120.2**
Agricultural Machinery	103.9	2.3			**106.2**
Stationary Equipment	35.2	17.7			**52.9**
Service	109.2	86.2			**195.4**
Miscellaneous/Marine	8.9	21.1	28.5	–1.5	**57.0**
Total	**589.5**	**153.7**	**28.5**	**–1.5**	**770.2**

Breakdown of revenue by application segment in the first half of 2020

€ million

	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	**Total**
Construction Equipment	173.2	11.7			**184.9**
Material Handling	69.0	10.4			**79.4**
Agricultural Machinery	79.6	1.9			**81.5**
Stationary Equipment	33.6	22.1			**55.7**
Service	89.4	81.3			**170.7**
Miscellaneous/Marine	8.9	17.6	22.5	–1.2	**47.8**
Total	**453.7**	**145.0**	**22.5**	**–1.2**	**620.0**

Breakdown of revenue by region in the first half of 2021

€ million

	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	**Total**
Europe / Middle East / Africa	395.2	89.0	18.6	–1.5	**501.3**
Americas	94.4	29.3	7.1		**130.8**
Asia-Pacific	99.9	35.4	2.8		**138.1**
Total	**589.5**	**153.7**	**28.5**	**–1.5**	**770.2**

Breakdown of revenue by region in the first half of 2020

€ million

	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	**Total**
Europe/Middle East/Africa	297.3	89.6	13.9	–1.2	**399.6**
Americas	78.0	28.7	5.8		**112.5**
Asia-Pacific	78.4	26.7	2.8		**107.9**
Total	**453.7**	**145.0**	**22.5**	**–1.2**	**620.0**

2. OTHER OPERATING INCOME

Other operating income increased by €5.8 million compared with the first six months of 2020. The increase is mainly attributable to the settlement reached with Torqeedo's former owners in the first quarter of 2021 regarding compensation for losses incurred due to a product recall in 2019.

3. OTHER OPERATING EXPENSES

Other operating expenses included restructuring costs of €0.7 million. These restructuring costs were the result of the efficiency program initiated at the beginning of 2020 and, as in the second half of 2020, were recognized as an exceptional item. Exceptional items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities that are unlikely to recur.

The exceptional items primarily relate to administration units within the Company.

4. OTHER COMPREHENSIVE INCOME

Other comprehensive income comprises the elements of the statement of comprehensive income not reported in the income statement. The taxes resulting from other comprehensive income are shown in the following table:

€ million	1–6/2021 Before taxes	1–6/2021 Taxes	1–6/2021 After taxes	1–6/2020 Before taxes	1–6/2020 Taxes	1–6/2020 After taxes
Amounts that will not be reclassified to the income statement in the future	**5.3**	**–1.7**	**3.6**	**–4.4**	**1.4**	**–3.0**
Remeasurements of defined benefit plans	5.3	–1.7	3.6	–4.4	1.4	–3.0
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**2.4**	**0.6**	**3.0**	**–1.3**	**–0.1**	**–1.4**
Currency translation differences	4.5	0.0	4.5	–1.6	0.0	–1.6
thereof profit/loss on equity-accounted investments	2.1	0.0	2.1	–1.2	0.0	–1.2
Effective portion of change in fair value from cash flow hedges	–2.0	0.6	–1.4	0.3	–0.1	0.2
Fair value of financial instruments	–0.1	0.0	–0.1	0.0	0.0	0.0
Other comprehensive income	**7.7**	**–1.1**	**6.6**	**–5.7**	**1.3**	**–4.4**

A pre-tax gain of €1.1 million relating to cash flow hedges was reclassified to the income statement in the first six months of 2021 (H1 2020: pre-tax loss of €1.1 million).

5. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure on property, plant and equipment and on intangible assets (after deducting grants) amounted to €36.8 million in the first half of the year (H1 2020: €48.0 million). This was broken down into €32.4 million (H1 2020: €37.5 million) on property, plant and equipment and €4.4 million (H1 2020: €10.5 million) on intangible assets.

Additions to property, plant and equipment mainly related to the extension of leases for leased property, replacement purchases, and new test rigs for gas and electric drives. The bulk of capital expenditure on intangible assets was channeled into the development of new engines. As at June 30, 2021, property, plant and equipment included right-of-use assets in connection with leases amounting to €59.2 million (December 31, 2020: €57.2 million).

Against this capital expenditure, depreciation and amortization amounted to €45.7 million (H1 2020: €42.7 million). No impairment losses were recognized on intangible assets or on property, plant and equipment in the first half of 2021. In the prior-year period, impairment losses of €5.3 million had been recognized.

6. FINANCIAL DEBT

€ million	**Jun. 30, 2021**	Dec. 31, 2020
Non-current	57.1	58.3
Current	89.2	90.2
Total	**146.3**	**148.5**

As at June 30, 2021, financial debt included non-current lease liabilities of €48.0 million (December 31, 2020: €44.0 million) and current lease liabilities of €13.4 million (December 31, 2020: €14.0 million). This increase in non-current lease liabilities primarily resulted from the Company entering into new property leases and extending existing ones.

7. OTHER PROVISIONS

€ million	**Jun. 30, 2021**	Dec. 31, 2020
Non-current	33.4	37.5
Current	82.0	83.3
Total	**115.4**	**120.8**

OTHER INFORMATION

FINANCIAL INSTRUMENTS

The following table shows the carrying amounts of the individual financial assets and liabilities for each separate category of financial instrument, reconciled to the corresponding balance sheet item.

Financial instruments (assets)

Jun. 30, 2021	**Measured at amortized cost**	**Measured at fair value**		**Assets not within the scope of IFRS 9**	
€ million					
		Through other comprehensive income	Through profit or loss	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial assets	**0.0**	**1.5**	**2.5**	**0.7**	**4.7**
Current financial assets	**194.2**	**0.3**	**15.3**	**31.6**	**241.4**
Trade receivables	121.3	0.0	15.3	0.0	136.6
Other receivables and assets	10.9	0.3	0.0	31.6	42.8
Cash and cash equivalents	62.0	0.0	0.0	0.0	62.0

Financial instruments (assets)

Dec. 31, 2020	**Measured at amortized cost**	**Measured at fair value**		**Assets not within the scope of IFRS 9**	
€ million					
		Through other comprehensive income	Through profit or loss	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial assets	**0.0**	**1.4**	**2.2**	**0.8**	**4.4**
Current financial assets	**187.0**	**2.0**	**6.1**	**23.4**	**218.5**
Trade receivables	107.7	0.0	6.1	0.0	113.8
Other receivables and assets	14.6	2.0	0.0	23.4	40.0
Cash and cash equivalents	64.7	0.0	0.0	0.0	64.7

Financial instruments (liabilities)

Jun. 30, 2021	Measured at amortized cost	Measured at fair value		Liabilities not within the scope of IFRS 9	
€ million					
	Financial liabilities	Derivatives designated as hedging instruments (recognized as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
Non-current financial liabilities	**9.9**	**0.0**	**2.5**	**50.4**	**62.8**
Financial debt	9.1	0.0	0.0	48.0	57.1
Lease liabilities	0.0	0.0	0.0	48.0	48.0
Miscellaneous financial debt	9.1	0.0	0.0	0.0	9.1
Other liabilities	0.8	0.0	2.5	2.4	5.7
Current financial liabilities	**343.4**	**0.5**	**0.1**	**25.2**	**369.2**
Financial debt	75.8	0.0	0.0	13.4	89.2
Lease liabilities	0.0	0.0	0.0	13.4	13.4
Miscellaneous financial debt	75.8	0.0	0.0	0.0	75.8
Trade payables	216.2	0.0	0.0	0.0	216.2
Other liabilities	51.4	0.5	0.1	11.8	63.8

Financial instruments (liabilities)

Dec. 31, 2020	Measured at amortized cost	Measured at fair value		Liabilities not within the scope of IFRS 9	
€ million					
	Financial liabilities	Derivatives designated as hedging instruments (recognized as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
Non-current financial liabilities	**15.3**	**0.0**	**2.5**	**46.4**	**64.2**
Financial debt	14.3	0.0	0.0	44.0	58.3
Lease liabilities	0.0	0.0	0.0	44.0	44.0
Miscellaneous financial debt	14.3	0.0	0.0	0.0	14.3
Other liabilities	1.0	0.0	2.5	2.4	5.9
Current financial liabilities	**273.4**	**0.0**	**0.0**	**24.8**	**298.2**
Financial debt	76.2	0.0	0.0	14.0	90.2
Lease liabilities	0.0	0.0	0.0	14.0	14.0
Miscellaneous financial debt	76.2	0.0	0.0	0.0	76.2
Trade payables	153.0	0.0	0.0	0.0	153.0
Other liabilities	44.2	0.0	0.0	10.8	55.0

The following table shows the carrying amounts and fair values of all financial instruments included in the consolidated financial statements that fall within the scope of IFRS 7 'Financial Instruments: Disclosures' and that are not reported at fair value.

€ million	**Jun. 30, 2021**		Dec. 31, 2020	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Trade receivables	121.3	121.3	107.7	107.7
Other receivables and assets	10.9	10.9	14.6	14.6
Cash and cash equivalents	62.0	62.0	64.7	64.7
Financial liabilities				
Financial debt – liabilities to banks	84.9	84.9	90.5	91.2
Trade payables	216.2	216.2	153.0	153.0
Other liabilities	52.2	52.2	45.2	45.2

In the case of cash and cash equivalents, trade receivables, trade payables, and other current financial assets and liabilities (due within one year), the carrying amounts are virtually the same as the fair values owing to the short residual maturity.

The fair value of non-current financial assets and liabilities is calculated by discounting estimated future cash flows using arm's length discount rates and taking into account our own credit risk and that of our counterparties based on credit ratings and exchange rates on the balance sheet date.

The following table shows the assignment to the three levels of the IFRS 13 measurement hierarchy of the fair values as at the balance sheet date of financial assets and liabilities that were measured at fair value in the consolidated financial statements, or for which a fair value was calculated in the notes to the financial statements:

Jun. 30, 2021

€ million

	Carrying amount	**Fair value**	Level 1	Level 2	Level 3
Financial assets					
Securities – recognized through other comprehensive income	1.5	1.5	1.5	0.0	0.0
Securities – recognized through profit or loss	2.5	2.5	2.5	0.0	0.0
Currency forwards – recognized through other comprehensive income	0.3	0.3	0.0	0.3	0.0
Currency forwards – recognized through profit or loss	0.0	0.0	0.0	0.0	0.0
Trade receivables	15.3	15.3	0.0	0.0	15.3
Financial liabilities					
Currency forwards – designated as hedging instruments	0.5	0.5	0.0	0.5	0.0
Currency forwards – held for trading	0.1	0.1	0.0	0.1	0.0
Other liabilities – held for trading	2.5	2.5	0.0	0.0	2.5
Financial debt	84.9	84.9	0.0	0.0	84.9

Level 1: Measurement is based on the price of identical assets or liabilities in active markets.
Level 2: Measurement is based on the price of a similar instrument in active markets/
measurement using a method in which all the critical input factors are based on observable market data.
Level 3: Measurement using a method in which critical input factors are not based on observable market data.

Dec. 31, 2020

€ million

	Carrying amount	**Fair value**	Level 1	Level 2	Level 3
Financial assets					
Securities – recognized through other comprehensive income	1.4	1.4	1.4	0.0	0.0
Securities – recognized through profit or loss	2.2	2.2	2.2	0.0	0.0
Currency forwards – recognized through other comprehensive income	2.0	2.0	0.0	2.0	0.0
Currency forwards – recognized through profit or loss	0.0	0.0	0.0	0.0	0.0
Trade receivables	6.1	6.1	0.0	0.0	6.1
Financial liabilities					
Currency forwards – designated as hedging instruments	0.0	0.0	0.0	0.0	0.0
Currency forwards – held for trading	0.0	0.0	0.0	0.0	0.0
Other liabilities – held for trading	2.5	2.5	0.0	0.0	2.5
Financial debt	90.5	91.2	0.0	0.0	91.2

Level 1: Measurement is based on the price of identical assets or liabilities in active markets.
Level 2: Measurement is based on the price of a similar instrument in active markets/
measurement using a method in which all the critical input factors are based on observable market data.
Level 3: Measurement using a method in which critical input factors are not based on observable market data.

The fair value of securities is derived from prices in active markets.

The trade receivables recognized at fair value relate to receivables that are sold as part of the existing factoring agreements. The receivables are transferred to the factoring companies at their nominal value. The fair value of the receivables corresponds to the sale price and therefore the nominal value of the receivables. The main influencing factor on the fair value of the receivables is credit risk. However, this is deemed to be negligible given that they are being sold to the factoring company.

The fair value of derivative financial instruments (currency forwards and interest-rate swaps) is calculated over the remaining term of the instrument using current exchange rates, market interest rates, and yield curves and taking into account our own credit risk and that of our counterparties. The disclosures are based on valuations by banks.

Other liabilities, which are recognized at fair value and amounted to €2.5 million (December 31, 2020: €2.5 million), relate to the remaining contingent consideration for the purchase of the shares in Futavis. Fair value was determined using a method based on present value. Measurement was based, in particular, on senior management's estimates of the likelihood of certain conditions occurring, for example the achievement of earnings targets. DEUTZ AG's senior management estimates that the contingent consideration will be in a range of €1.8 million to €3.9 million.

SEGMENT REPORTING

Information about the segments of the DEUTZ Group for the first half of 2021 and the first half of 2020 is shown in the following table:

1–6/2021	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
External revenue	589.5	153.7	27.0	770.2	0.0	770.2
Intersegment revenue	0.0	0.0	1.5	1.5	–1.5	0.0
Total revenue	**589.5**	**153.7**	**28.5**	**771.7**	**–1.5**	**770.2**
Operating profit/loss (EBIT before exceptional items)	0.3	17.5	–1.0	16.8	0.0	16.8

1–6/2020	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
External revenue	453.7	145.0	21.3	620.0	0.0	620.0
Intersegment revenue	0.0	0.0	1.2	1.2	–1.2	0.0
Total revenue	**453.7**	**145.0**	**22.5**	**621.2**	**–1.2**	**620.0**
Operating profit/loss (EBIT before exceptional items)	–49.8	6.6	–6.7	–49.9	0.0	–49.9

Reconciliation from overall profit/loss of the segments to net income

€ million	**1–6/2021**	1–6/2020
Overall profit/loss of the segments	**16.8**	**–49.9**
Reconciliation	0.0	0.0
EBIT before exceptional items	**16.8**	**–49.9**
Exceptional items	–0.7	0.0
EBIT	**16.1**	**–49.9**
Financial income, net	–2.8	–1.7
Net income before income taxes	**13.3**	**–51.6**
Income taxes	0.0	–0.7
Net income	**13.3**	**–52.3**

RELATED PARTY DISCLOSURES

In addition to its consolidated subsidiaries, the DEUTZ Group maintains relationships with related parties.

These include the business relationships between the DEUTZ Group and entities in which it holds significant investments.

The following table shows the volume of material business relationships with entities in which the DEUTZ Group holds significant investments:

	Goods and services provided		**Other expenses in connection with goods and services received**		**Receivables**		**Payables**	
€ million	**1–6/2021**	1–6/2020	**1–6/2021**	1–6/2020	**Jun. 30, 2021**	Dec. 31, 2020	**Jun. 30, 2021**	Dec. 31, 2020
Associates	5.1	3.8	0.0	0.0	1.7	1.0	0.0	0.0
Joint ventures	1.4	0.0	0.0	0.0	0.3	0.6	0.0	0.0
Other investments	0.0	0.0	2.4	2.4	0.0	0.0	3.3	3.0
Total	**6.5**	**3.8**	**2.4**	**2.4**	**2.0**	**1.6**	**3.3**	**3.0**

The increase in goods and services provided to associates is attributable to the recovery in customer demand following the severe impact of the coronavirus pandemic in the prior-year period.

As at June 30, 2021, receivables of €9.2 million due from other investments had been written off in full (December 31, 2020: €9.2 million).

Some of the receivables and liabilities resulted from loans. Taken together, neither the interest and similar income nor the interest expense and similar charges arising from the interest paid on these loans are material.

Related parties also include the Supervisory Board and the Board of Management. No significant business relationships exist between members of these boards and the DEUTZ Group.

Further disclosures relating to the balance sheet, income statement, and cash flow statement as well as the segment reporting can be found in the group management report.

Cologne, July 30, 2021

DEUTZ Aktiengesellschaft

The Board of Management

Dr.-Ing. Frank Hiller

Dr. Markus Müller

Dr. Sebastian C. Schulte

Michael Wellenzohn

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

Cologne, July 30, 2021

DEUTZ Aktiengesellschaft

The Board of Management

Dr.-Ing. Frank Hiller

Dr. Markus Müller

Dr. Sebastian C. Schulte

Michael Wellenzohn

REVIEW REPORT

To DEUTZ Aktiengesellschaft, Cologne

We have reviewed the condensed interim consolidated financial statements – comprising the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity, and selected explanatory notes – and the interim group management report of DEUTZ Aktiengesellschaft, Cologne, for the period from January 1 to June 30, 2021, which are part of the half-year financial report pursuant to section 115 Wertpapierhandelsgesetz (WpHG, German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with the IFRS applicable to interim financial reporting, as adopted by the EU, and of the interim group management report in accordance with the provisions of the WpHG applicable to interim group management reports is the responsibility of the Company's Board of Management. Our responsibility is to issue a review report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We conducted our review of the condensed interim consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Public Auditors in Germany). Those standards require that we plan and perform the review such that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the provisions of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the interim group management report has not been prepared, in material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Cologne, August 4, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Harald Wimmer	Clivia Döll
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

FINANCIAL CALENDAR

2021	
November 10	Quarterly statement for the first to third quarter of 2021 Conference call with analysts and investors
2022	
March 17	2021 annual report Annual results press conference with analysts and investors
April 28	Annual General Meeting
May 5	Interim management statement for the first quarter of 2022 Conference call with analysts and investors
August 11	Interim report for the first half of 2022 Conference call with analysts and investors
November 10	Interim management statement for the first to third quarter of 2022 Conference call with analysts and investors

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Only the German version of this report is legally binding. The Company cannot be held responsible for any misunderstanding or misinterpretation arising from this translation.

The report is only available in digital form. This half-year report was published on August 12, 2021.