Growth – Innovation – Sustainability

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DEUTZ AG Annual Report 2020

DEUTZ

DEUTZ GROUP: OVERVIEW

€ million

	2020	2019	Change (%)
New orders	1,322.5	1,654.3	–20.1
Unit sales (units)	150,928	211,667	–28.7
Revenue	1,295.6	1,840.8	–29.6
EBITDA	–0.2	175.5	–100.1
EBITDA (before exceptional items)	31.7	166.2	–80.9
EBIT	–106.6	88.1	–221.0
EBIT (before exceptional items)	–74.7	78.8	–194.8
EBIT margin (%)	–8.2	4.8	–
EBIT margin (before exceptional items, %)	–5.8	4.3	–
Net income	–107.6	52.3	–305.7
Net income (before exceptional items)	–75.7	44.2	–271.3
Earnings per share (€)	–0.89	0.43	–307.0
Earnings per share (before exceptional items, €)	–0.63	0.37	–270.3
Total assets	1,180.5	1,301.2	–9.3
Non-current assets	613.6	619.5	–1.0
Equity	535.2	652.4	–18.0
Equity ratio (%)	45.3	50.1	–
Cash flow from operating activities	44.9	115.6	–61.2
Free cash flow[1]	–35.8	–36.6	2.2
Net financial position[2]	–83.8	–15.2	–451.3
Working capital[3]	235.0	293.2	–19.8
Working capital ratio[4] (average, %)	21.8	17.4	–
Capital expenditure (after deducting grants)[5]	91.7	86.5	6.0
Depreciation and amortization	106.4	87.4	21.7
Research and development (after deducting grants)	81.4	95.8	–15.0
thereof capitalized	12.6	21.7	–41.9
Employees[6] (number as at Dec. 31)	4,586	4,906	–6.5

[1] Cash flow from operating and investing activities less interest expense.
[2] Cash and cash equivalents less current and non-current interest-bearing financial debt.
[3] Inventories plus trade receivables less trade payables.
[4] Average working capital at the four quarterly reporting dates divided by revenue for the previous twelve months.
[5] Capital expenditure on property, plant and equipment (including right-of-use assets in connection with leases) and intangible assets, excluding capitalization of R&D.
[6] From 2019 onward, the number of employees is expressed in FTEs (full-time equivalents).

DEUTZ Compact Engines

	2020	2019	Change (%)
New orders (€ million)	954.3	1,268.4	–24.8
Unit sales (units)	102,054	164,677	–38.0
Revenue (€ million)	943.8	1,446.4	–34.7
EBIT (€ million)[1]	–80.5	57.7	–239.5
EBIT margin (%)[1]	–8.5	4.0	–

[1] before exceptional items.

DEUTZ Customized Solutions

	2020	2019	Change (%)
New orders (€ million)	324.5	341.7	–5.0
Unit sales (units)	18,980	26,048	–27.1
Revenue (€ million)	310.1	362.5	–14.5
EBIT (€ million)[1]	18.7	42.8	–56.3
EBIT margin (%) [1]	6.0	11.8	–

[1] before exceptional items.

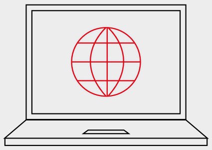
Growth – Innovation – Sustainability

Vision DEUTZ builds the most advanced drive systems for professionals, providing outstanding performance to shape the world.

Mission Through pioneering spirit and innovation, DEUTZ shaped the industrial revolution. Now, we are driving the next revolution – delivering efficiency, performance, and sustainability for our customers.

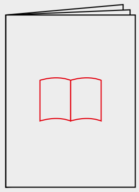
DEUTZ ANNUAL REPORT 2020

As of the end of 2020, for environmental reasons, we will no longer be printing annual reports, half-year reports, or quarterly statements for distribution. The online version of the annual report contains the complete report, further information about the overarching corporate strategy, and strategic highlights. This information is additionally summarized in a separate magazine that is also available on our website.



THE 2020 ONLINE ANNUAL REPORT
INCLUDING A KPI TOOL AND INTERACTIVE FEATURES
AT

annualreport.deutz.com/2020



DEUTZ 2020 – THE MAGAZINE
PRINTED OR AS A PDF
AT

www.deutz.com/magazin2020/en

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About this report

This annual report takes an in-depth look at the business performance of the DEUTZ Group and DEUTZ AG. It covers both financial and non-financial aspects. See 'Separate combined non-financial report', p. 70 onward.

Reporting structure

The reporting period covers the 2020 financial year, which began on January 1 and ended on December 31, 2020. To ensure that it is as up to date as possible, this report also contains any relevant information that was available by the time that the responsibility statement was issued on February 26, 2021. The consolidated financial statements and group management report have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the additional requirements pursuant to the German Commercial Code (HGB).The separate combined non-financial report has been prepared in accordance with section 315c in conjunction with sections 289c to 289e HGB. However, the reporting is in parts based on the aspects covered by particular criteria of the German Sustainability Code.

Independent audit

The consolidated financial statements prepared by DEUTZ AG – comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the consolidated financial statements – and the group management report were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC). See 'Independent auditor's report', p. 171 onward.

The combined non-financial statement for DEUTZ AG and the Group was subject to a separate review with limited assurance by PwC that was conducted in accordance with the International Standard on Assurance Engagements, ISAE 3000 (Revised).
See 'Independent practitioner's report', p. 93 onward.

The remit of PwC's audit engagement did not include auditing the online version of the report or references to external sources, such as the Company's website.

Forward-looking statements

This report includes certain statements and assumptions about future events and developments. Such forward-looking statements include known and unknown risks, uncertainties, and other factors. These means that the actual future performance, development, and results of the Company, and of sectors important to the Company, may be significantly different – in particular, may differ negatively – from those expressly or implicitly assumed in these statements. It is therefore not possible to make any guarantees with regard to the forward-looking statements made in this annual report.

Further information

In this report, references to further information are highlighted in the text and the relevant page number is given. A gray font is used to highlight glossary terms, explanations of which can be found on p. 188 onward in this report, and references to further information that is available online.

Miscellaneous

This annual report is available in German and English. To improve readability, we do not indicate rounding differences in this report.

CONTENTS

FOREWORD BY THE CHAIRMAN OF THE BOARD OF MANAGEMENT

Dear Shareholders,
dear friends of the Company,

The coronavirus pandemic dominated everything in 2020 and changed the world. The virus created unprecedented challenges for DEUTZ too, as a global player with international sales markets and supply chains. We responded with rapid and decisive action, for example temporarily suspending production in Europe in April last year to protect the health of our employees. One key achievement was the swift formulation and implementation of our 'Vision of Success', a set of guidelines that served as a compass in these extraordinary times, steering DEUTZ through the crisis in the best way possible.

Despite all the measures we put in place, there is no denying that the economic fallout from the coronavirus pandemic took its toll on our 2020 financial results. The massive slump in demand in what was already a challenging market environment resulted in a year-on-year decline in revenue of 29.6 percent to €1,295.6 million and an EBIT margin before exceptional items of minus 5.8 percent. The Company reported a net loss adjusted for exceptional items of €75.7 million, which translated into earnings per share of minus €0.63.

The DEUTZ share price was also severely impacted by the coronavirus crisis in 2020. Encouragingly, it had almost completely recovered by the end of the year, and at the end of February 2021 our share price was even higher than the high of 2020.

We implemented a number of measures during the year under review to protect the liquidity of the Group. In addition to general cost-cutting measures, these included the Board of Management and the Supervisory Board forgoing their variable remuneration and/or part of their fixed remuneration for 2020 and our senior managers voluntarily sacrificing a substantial part of their variable remuneration. In addition, with your consent, we suspended the dividend payment for 2019. This has allowed us to not only secure our financial stability but also make sure the growth projects we have already begun can be delivered as planned.

"We have taken the steps that are needed to secure the Company's future success."

DR. ING. FRANK HILLER

The successful implementation of our China strategy is evidence of the benefit of following through with strategic capital spending projects even when it means having to accept certain sacrifices. Despite the coronavirus crisis, our business in that region was already in profit in the first half of 2020 and, on the basis of market demand, we were able to increase our sales target for 2022 in the world's largest market for construction equipment from around €500 million to around €800 million.

We firmly believe that we can capture tomorrow's markets today. And, as an innovative engine manufacturer, we know that the climate targets in the Paris Agreement can only be achieved with a realistic combination of different drive technologies. This is why we regard the continued rigorous implementation of our E-DEUTZ strategy as essential and are especially proud that in 2020, with our DEUTZ-Torqeedo-Futavis group of companies, we were able to put everything in place for the industrialization of electric and hybrid drive systems. We will go to market with the first all-electric E-DEUTZ product, the 360-volt base drive system, in spring 2021 – an achievement that is testament to the strategic success of past acquisitions.

In addition to acquisitions, we rely on strategic partnerships to offer our customers additional expertise. At the end of 2020, we entered into an agreement with John Deere Power Systems to develop an engine together. This will enable us to combine our production volumes and benefit from global economies of scale.

With regard to our high-margin service business, we also continued to expand our global network in 2020, because being close to our customers is key to our success as an international Group. The acquisition of DEUTZ Austria GmbH, Motorcenter Austria GmbH, and Pro Motor Servis CZ gives us direct access to the markets in Austria, the Czech Republic, Hungary, Slovakia, and Slovenia. We are also expanding our service portfolio, particularly with a view to digital services, transforming from a spare parts specialist to a full service provider with ever better, faster, and more convenient solutions that aim to deliver maximum benefit to our customers.

Looking ahead to 2021, it is still unclear exactly how the coronavirus crisis will play out. Although there are signs of a slight upward trend, it seems likely that it will be a long time before we get back to pre-crisis levels. We would expect to sell a minimum of 130,000 DEUTZ engines in 2021, and to generate revenue of at least €1.40 billion. The EBIT margin before exceptional items is therefore likely to be at break-even level, at the very least.

Despite the cautious outlook for 2021, we remain very optimistic about the future.
As an additional measure to safeguard earnings performance in a challenging environment and to ensure that the Company remains competitive in the long term, we launched a review of our existing processes and structures at the beginning of 2020. This resulted in 'Transform for Growth' – our global efficiency program that we hope will lead to annual cost savings of approximately €100 million (gross) from the end of 2022. Through this program and the rigorous implementation of our growth initiatives, we are taking the steps now that are needed to secure the Company's future success. And although the impact of the pandemic means we now expect to achieve our medium-term targets in 2023/24 rather than in 2022 as originally planned, the objectives are clear: more than €2 billion revenue with an EBIT margin before exceptional items of 7 to 8 percent, and electric drive systems accounting for 5 to 10 percent of revenue.

In the true spirit of our corporate values, we will continue to do everything we can – with innovative strength, pioneering spirit and, above all, our team mentality – to ensure that we emerge from these turbulent times even stronger than before and to deliver what we promised you. Our employees are the key driving force in this endeavor, and I would like to take this opportunity to extend my very special thanks to them. With their tireless efforts even under the most challenging conditions they ensure – day in, day out – that the engine of DEUTZ never stands still. My thanks also go to our customers and business partners and to you, our valued shareholders, for the confidence you have shown in us.

Cologne, February 2021

Frank Hiller

Dr.-Ing. Frank Hiller
CHAIRMAN OF THE BOARD OF MANAGEMENT

“The world is changing and we are taking action. DEUTZ is a pioneer of efficient and sustainable drive technologies and is ready to serve the market of the future.”

DR. ING. FRANK HILLER

“In 2020, a year dominated by coronavirus, we set the course for a successful future with our efficiency program.”

DR. ANDREAS STRECKER

“Thanks to our increasingly digitalized service business, we now offer our customers even more added value.”

MICHAEL WELLENZOHN

BOARD OF MANAGEMENT

MICHAEL WELLENZOHN

Board member
Sales, Marketing,
and Service

- Born on November 22, 1966 in Chur, Switzerland
- Member of the Board of Management since March 1, 2013, appointed until December 31, 2023

DR. SEBASTIAN C. SCHULTE

Board member
Finance, Human Resources,
Purchasing, and
Information Services

since March 1, 2021

- Born on December 13, 1978 in Wiesbaden, Germany
- Member of the Board of Management since January 1, 2021, appointed until December 31, 2023

DR. ING. FRANK HILLER

Chairman of the Board
Technical and
Head-office Functions,
Sustainability

- Born on May 23, 1966 in Stuttgart, Germany
- Chairman of the Board of Management since January 1, 2017, appointed until December 31, 2026

DR. ANDREAS STRECKER

Board member
Finance, Human Resources,
Purchasing, and
Information Services

until February 28, 2021

- Born on August 16, 1961 in Rastatt, Germany
- Member of the Board of Management since March 1, 2018, appointed until February 28, 2021

Report of the Supervisory Board

CLOSE COOPERATION BETWEEN SUPERVISORY BOARD AND BOARD OF MANAGEMENT

In 2020, the Supervisory Board of DEUTZ AG continued its ongoing monitoring of the management of the business in accordance with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code and provided advice to the Board of Management on key decisions. The Supervisory Board was directly involved in all material decisions made by the Board of Management. In particular, the Board of Management coordinated closely with the Supervisory Board on the Company's corporate strategy.

Dr.-Ing. Bernd Bohr
Chairman of the Supervisory Board

A total of four ordinary and four extraordinary meetings of the Supervisory Board were held in 2020. Due to ill health, Dr. Ing. Ulrich Dohle was absent for all meetings prior to his departure from the Supervisory Board in October 2020. Apologies were received. Apologies for absence were received from Mr. Ali Yener for the meeting on December 9, 2020. All members of the Supervisory Board participated in all the other meetings in 2020. Furthermore, all members took part in all the meetings of the Supervisory Board committees to which they belonged.

The attendance rates of the individual Supervisory Board members were as follows:

Supervisory Board member	Number of meetings of the Supervisory Board and its committees	Number of meetings attended	Attendance rate (%)
Dr.-Ing. Bernd Bohr Chairman of the Supervisory Board	18	18	100
Corinna Töpfer-Hartung Deputy Chairwoman of the Supervisory Board	17	17	100
Sophie Albrecht	9	9	100
Sabine Beutert	12	12	100
Yavuz Büyükdag	8	8	100
Dr. Fabian Dietrich	8	8	100
Dr.-Ing. Ulrich Dohle[1]	7	0	0
Hans-Peter Finken	8	8	100
Patricia Geibel-Conrad	12	12	100
Alois Ludwig	14	14	100
Dr.-Ing. Rudolf Maier[2]	1	1	100
Dr. Dietmar Voggenreiter	8	8	100
Ali Yener	8	7	87.5

[1] Member of the Supervisory Board until October 7, 2020.
[2] Member of the Supervisory Board from October 7, 2020.

At each of the ordinary meetings of the Supervisory Board, the Board of Management reported on the general economic, market, and competitive environment for the DEUTZ Group, presented a business update and sales report that included detailed information on the actual performance of the business over the immediately preceding period, submitted an up-to-date risk report, provided information on key operational issues, and offered an overview of the results forecast for the year as a whole. These reports were made on the basis of the key performance indicators that were already familiar to the Supervisory Board members from the Company's written monthly reports. These key performance indicators included new orders, orders on hand, revenue, unit sales, **EBIT**, research and development expenditure, capital expenditure, **working capital**, quality data, and headcount data, in each case compared against the prior-year figures and budget. Reports from the Human Resources and Audit Committees presented by their chairperson were also a regular item on the agenda of the Supervisory Board meetings.

FOCUS OF SUPERVISORY BOARD DELIBERATIONS

The deliberations and discussions of the Supervisory Board in the year under review focused on the current business position and risk situation of the DEUTZ Group as well as on the operational and strategic development of the business. The latter was the subject of a full-day extraordinary meeting of the Supervisory Board. Particular attention was paid to the impact of the coronavirus pandemic on the Company's revenue, earnings, liquidity, and staffing levels. The China strategy, the continued expansion of the E-DEUTZ strategy, the expansion of the service business, for example through the acquisition of the DEUTZ dealer PRO MOTOR Beteiligungsgesellschaft mbH, the development of new business, and steps to bring about lasting quality improvements were also the subject of in-depth discussion.

Other key decisions concerned the 2021 budget, the medium-term planning up to 2025, and the approval of capital expenditure and development projects. As is the case every year, the Supervisory Board also adopted resolutions concerning the achievement of targets by the Board of Management – and consequently its variable remuneration for the previous year – as well as the setting of its targets and medium-term targets for the current year. In response to the changes brought about by the German Act Implementing the Second Shareholder Rights' Directive (ARUG II), the Supervisory Board also drew up and approved a new remuneration system for the Board of Management that will apply from 2021 and will submit this to the 2021 Annual General Meeting for approval.

The Board of Management ensured that it provided the Supervisory Board with comprehensive, regular, and timely information at all times. Between meetings, the Board of Management informed the members of the Supervisory Board in writing about all important events. In addition, the chairman of the Supervisory Board and the chairman of the Board of Management remained in close and regular contact to discuss all important transactions, imminent decisions, and optimization measures. All the decisions that the Supervisory Board was required to make in accordance with the law and Statutes were made on the basis of the reports and draft resolutions submitted by the Board of Management and, where necessary, following preparation by the relevant committees of the Supervisory Board.

COMPOSITION OF THE BOARD OF MANAGEMENT

At the time that the responsibility statement was signed, the Company's Board of Management consisted of four people: Dr. Ing. Frank Hiller (Chairman, responsible for technical and head-office functions, and sustainability), Dr. Andreas Strecker (responsible for finance, human resources, purchasing, and information services until February 28, 2021), Mr. Michael Wellenzohn (responsible for sales, service, and marketing), and Dr. Sebastian C. Schulte (responsible for finance, human resources, purchasing, and information services from March 1, 2021).

At the Supervisory Board meeting on August 4, 2020, following preparatory work by the Human Resources Committee, the Supervisory Board appointed Mr. Sebastian C. Schulte as a member of the Board of Management for the period from January 1, 2021 to December 31, 2023. From March 1, 2021, following his appointment to the Board of Management on January 1, 2021, Dr. Sebastian C. Schulte will assume responsibility for finance, human resources, purchasing, and information services, as well as the role of Human Resources Director, from Dr. Andreas Strecker, whose term of appointment on the Board of Management ends on February 28, 2021. The Supervisory Board would like to thank Dr. Strecker for the dedication that he showed in his work on the Board of Management and for the impetus that he gave the Company.

At the Supervisory Board meeting on February 10, 2021, following preparatory work by the Human Resources Committee, the Supervisory Board extended Dr. Ing. Frank Hiller's appointment by a further five years, i.e. for the period from January 1, 2022 to December 31, 2026.

CORPORATE GOVERNANCE: DECLARATION OF CONFORMITY NO DEVIATIONS

At its meeting on December 9, 2020, the Supervisory Board held in-depth discussions on the German Corporate Governance Code (DCGK, version dated December 16, 2019) and, together with the Board of Management, issued a declaration of conformity pursuant to section 161 AktG. This declaration does not include any deviations from the Code. Since December 10, 2020, it has been available in the 'Investor Relations/Corporate Governance' section of the Company's website at **www.deutz.com**, where it can be downloaded.

MATTERS HANDLED EFFICIENTLY BY FOUR COMMITTEES

The Supervisory Board has created four committees to enable it to perform its duties effectively. These committees prepare various topics and resolutions for the full Supervisory Board. Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 166 to 167 of this annual report. In the reporting year, the Supervisory Board completed an efficiency audit (article 5.6 DCGK, version dated February 7, 2017) that had been conducted in the prior year by an external consultancy. The results were discussed in detail by the Supervisory Board as a whole.

The members of the Human Resources Committee are Dr. Ing. Bernd Bohr (chairperson), Ms. Corinna Töpfer-Hartung, and Mr. Alois Ludwig. The Human Resources Committee makes preparations for all Supervisory Board decisions concerning the appointment of members of the Board of Management and their contracts of employment, including the remuneration specified therein, and all issues arising in this connection. It particularly focuses on long-term succession planning, which involves identifying suitable candidates at an early stage. In this task, it is supported by external consultants. The committee held five meetings in 2020, all of which were attended by all members of the committee. Among the main matters addressed were succession planning for the Board of Management, the drawing up of a new remuneration system for the Board of Management in response to the changes brought about by the German Act Implementing the Second Shareholder Rights' Directive (ARUG II), the achievement of the Board of Management's targets for 2019, and the setting of Board of Management targets, including medium-term targets, for 2020.

The Audit Committee's members are Ms. Patricia Geibel-Conrad (chairperson), Ms. Sabine Beutert (deputy chairperson), Ms. Corinna Töpfer-Hartung, and Dr. Ing. Bernd Bohr. Its work primarily focused on the preparatory review of the annual and consolidated financial statements, including the combined management report, and of DEUTZ AG's separate combined non-financial report. The recommendations prepared for the Supervisory Board for these resolutions were adopted. The auditor's report on its review of the condensed consolidated financial statements and the interim management report was discussed at length together with the Board of Management and in the presence of the auditor. The interim management statements for the first and third quarters were discussed with the Board of Management.

The committee held four meetings in 2020, all of which were attended by all the members of the committee and Board of Management and, except on one occasion, by the auditor. The chairperson of the Audit Committee and the auditor also shared information between the meetings on an ad hoc basis. For individual agenda items, the heads of relevant head-office functions were also available in the committee's meetings to answer questions and give reports.

At its meeting on March 9, 2021, which was attended by the auditor and the Board of Management, the Audit Committee carried out a detailed review of the annual and consolidated financial statements based on the statements themselves, the combined management report of DEUTZ AG, the Board of Management report, and the corresponding auditor's reports for 2020. During the meeting, the auditor gave a detailed report on the process and key findings of the audits. The internal control system relating to the accounting system, the early-warning system for risk, the key audit matters, and the defined focus of the audit were discussed in detail; according to the findings of the audits, they did not give rise to any issues. The auditor provided in-depth answers to all further questions. The committee's preparatory review also encompassed DEUTZ AG's separate combined non-financial report. In preparation for the review, the Supervisory Board had engaged PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft to also conduct a review with limited assurance of the non-financial report and to produce a related assurance report. The auditor reported in detail on this review as well. This was followed by an intensive discussion of the main results and findings. The chairperson of the Audit Committee reported in detail on the committee's review of the annual and consolidated financial statements at the full Supervisory Board meeting.

The Audit Committee monitored the independence and qualifications of the auditor, the requirements with regard to rotation, and the quality of the auditing. It specified the catalog of approvable non-audit services to be performed by the auditor and consented to the services rendered. It appointed the auditor selected by the AGM for 2020, determined the focus of the audit, and set the auditor's fees.

Because of the unprecedented circumstances brought about by the coronavirus pandemic, the Board of Management reported regularly on the pandemic's impact on the earnings and net assets of the Group's operating segments, the liquidity and funding situation, the Group's working capital, and the relevant measures that were being taken. The measurement of investments, goodwill, and intangible assets, non-financial reporting, and accounting-related matters were also addressed. At several of its meetings, the committee examined the effectiveness and refinement of the internal control system, the risk management system, the effectiveness and findings of Corporate Audit, the compliance management system, and the reports on pending and potential legal disputes. In various meetings, the ICS coordinator, the head of Corporate Audit, and the Chief Compliance Officer gave reports on these matters and answered the Audit Committee's questions.

In response to the new provisions of the German Stock Corporation Act (AktG) regarding transactions with related parties, the Supervisory Board and Board of Management agreed on an internal process that meets the requirement to obtain the Supervisory Board's consent for such transactions. The Supervisory Board approved the internal control process for these transactions ('related party transactions') and delegated responsibility for the approval and monitoring of this process to the Audit Committee. There were no transactions requiring approval or disclosure in the reporting year.

The Audit Committee kept up to date with the changes to the regulatory environment and discussed the measures that would need to be taken by DEUTZ AG to meet the requirements of the ESEF regulation, to refine the non-financial reporting process, and to implement the new arrangements for the risk management system.

The chairperson of the Audit Committee routinely provided updates on the committee's work at subsequent meetings of the full Supervisory Board.

The members of the Arbitration Committee are Dr. Ing. Bernd Bohr (chairperson), Ms. Corinna Töpfer-Hartung, Ms. Sophie Albrecht, and Mr. Ali Yener. The Arbitration Committee set up pursuant to section 27 (3) of the German Codetermination Act (MitbestG) is responsible for the activities described in section 31 (3) MitbestG. It did not need to be convened during the year under review.

The members of the Nomination Committee are Dr. Ing. Bernd Bohr (chairperson), Ms. Sophie Albrecht, and Mr. Alois Ludwig. The Nominations Committee is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The Nominations Committee met once in 2020. Discussion at this meeting, which was attended by all members of the committee, focused on who would succeed Dr. Ing. Ulrich Dohle following his departure from the Supervisory Board due to ill health. The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS AUDITED IN DETAIL AND APPROVED

The annual financial statements of DEUTZ AG prepared by the Board of Management in accordance with the German Commercial Code (HGB), the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), and the combined management report for DEUTZ AG and the DEUTZ Group, in each case for the year ended December 31, 2020, were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Cologne, Germany, the auditor appointed by the Annual General Meeting on June 25, 2020. The auditor issued unqualified opinions. The annual financial statements of DEUTZ AG, the consolidated financial statements, the combined management report, the Board of Management's proposal for the appropriation of profit, and the auditor's reports were made available to all members of the Supervisory Board and were examined by the Supervisory Board. The auditors explained their audit findings in detail to the Audit Committee meeting held on March 9, 2021 and to the Supervisory Board meeting held on March 11, 2021 and answered any supplementary questions raised. The Supervisory Board approved the findings of the auditor's reports on DEUTZ AG and the DEUTZ Group. The concluding findings of the Supervisory Board's own review have not led to any reservations about either the annual financial statements or the consolidated financial statements, and the Supervisory Board has therefore approved them. The annual financial statements have thus been adopted. Finally, the Supervisory Board reviewed the separate combined non-financial report in accordance with its obligation pursuant to section 171 (1) sentence 4 AktG. It did not identify any issues.

COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

In 2020, the following changes were made to the composition of the Supervisory Board: At the request of the Supervisory Board and by means of a resolution dated October 7, 2020, the local court in Cologne removed Dr. Ing. Ulrich Dohle as a member of the Supervisory Board and appointed Dr. Ing. Rudolf Maier as a member of the Supervisory Board for a term that is limited until the next Annual General Meeting in 2021. This limited term is in line with the recommendation of the German Corporate Governance Code (article C.15, sentence 2 in the version dated December 16, 2019). Due to ill health, Dr. Ing. Ulrich Dohle was no longer able to fulfill his mandate as a member of the Supervisory Board and therefore had to be relieved of his office.

There were no changes to the composition of the Supervisory Board's committees in 2020.

DEUTZ AG supports members when they first join the Supervisory Board and subsequently offers them training and continuing professional development (CPD). Suitable training and CPD measures are regularly discussed by the Supervisory Board members among themselves and also with the Board of Management and the chairman of the Supervisory Board. New members are provided with comprehensive information on the Company's **corporate governance**. As is customary at DEUTZ AG, Supervisory Board members are given the chance to get to know the Company and the individual departments for themselves. In 2020, for example, this included a personal induction for the new member of the Supervisory Board Dr. Ing. Rudolf Maier and meetings with managers at the Cologne site.

CONFLICTS OF INTEREST / INDEPENDENCE OF SUPERVISORY BOARD MEMBERS / THANKS

No conflicts of interest between members of the Supervisory Board and DEUTZ AG arose in the year under review. The current members of the Supervisory Board of DEUTZ AG are all considered independent within the meaning of article C.6 sentence 2 of the German Corporate Governance Code. The Supervisory Board would like to express its thanks and appreciation to all employees of the DEUTZ Group in Germany and abroad, to the elected employee representatives, and to the Board of Management for their valuable efforts and the considerable dedication they showed in 2020. Special thanks are due for the hard work and flexibility shown by all employees as they fought for the Company while having to cope with financial sacrifices and the measures taken to combat the coronavirus crisis.

Cologne, March 2021

Dr.-Ing. Bernd Bohr
The Supervisory Board

DEUTZ in the capital markets

The economic lockdown in the first quarter of 2020 due to the coronavirus crisis triggered a collapse in the global equity markets. However, as the number of cases fell in summer, shares were able to bounce back sharply and in some cases recorded significant price gains. The continued expansionary monetary policy adopted by the US Federal Reserve and the European Central Bank and the billions pledged in coronavirus aid packages are likely to have been among the main factors contributing to this recovery.

Germany's key DAX index closed at 13,718 points on December 30, 2020, a gain of 3.6 percent compared with the figure for the end of 2019. The SDAX, to which DEUTZ shares belong, rose by 18 percent over the same period and closed at 14,765 points at the end of 2020. The DAXsector Industrial, which comprises German industrial companies, fell by 52 percent to 3,596 points, before rallying to end the year at 7,372 points. As a result, the index closed only 1.7 percent lower overall than at the end of 2019 (7,501 points).

Volatile, slightly weaker trajectory for the DEUTZ share price DEUTZ shares reached their high for the year of €5.77 right at the very beginning of 2020, on January 2, and hit their low for the year of €2.74 on March 17 in the wake of the lockdown. As the year progressed, the markets rallied strongly and so too did the DEUTZ share price, rising to €5.42 by mid-November. The announcement on November 23 that the medium-targets for revenue and earnings were being deferred to a later date represented a further setback, and the share price ended the year at €5.10 as a result. This was 8.4 percent lower than the year-end closing price recorded for DEUTZ shares in 2019.

Market capitalization stood at €616.4 million at the end of the reporting period.

Key figures for DEUTZ shares

€

	2020	2019
Number of shares as at Dec. 31	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price[1] as at Dec. 31	5.10	5.57
Share price high[1]	5.77	8.84
Share price low[1]	2.74	4.86
Market capitalization as at Dec. 31 (€ million)	616.4	673.2
Earnings per share	–0.89	0.43

[1] Xetra closing price.

EARNINGS PER SHARE

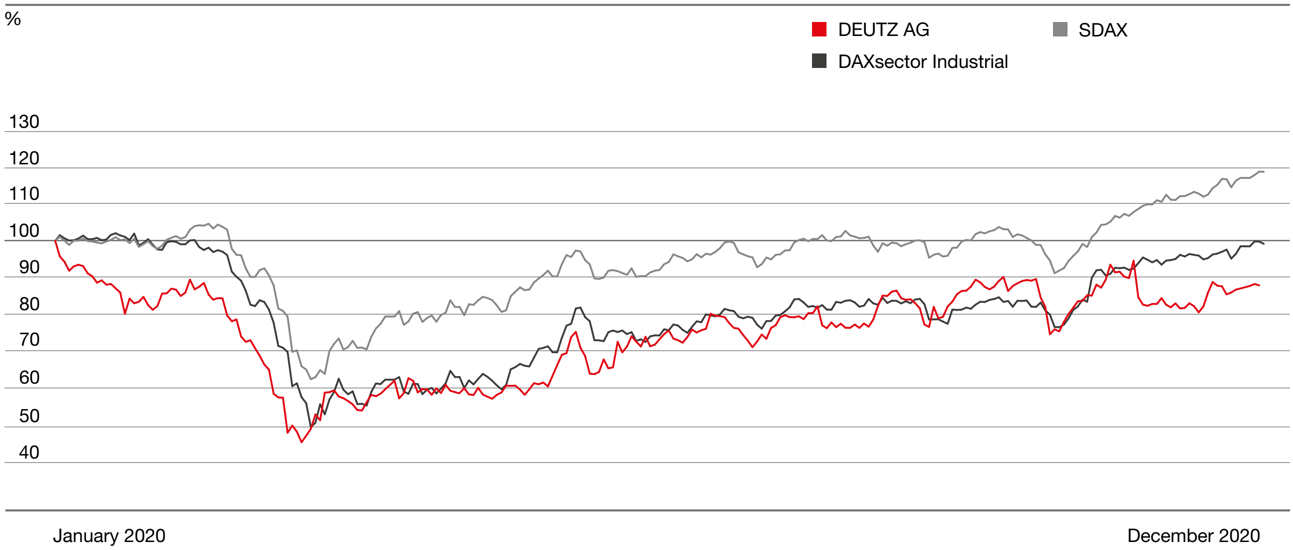
Earnings per share is calculated by dividing the net income or loss for the year attributable to the shareholders of DEUTZ AG by the weighted average number of shares in issue.

Based on the number of shares in issue during the reporting year and the net loss of €107.6 million, basic earnings per share amounted to minus €0.89, compared with €0.43 in 2019.

Key data on stock market listing

ISIN	DE0006305006
WKN	630500
Reuters	DEZG.DE
Bloomberg	DEZ:GR
Market segment	Regulated Market/Prime Standard
Index	SDAX
Trading platforms	Xetra, Frankfurt/Main and all other German stock exchanges
Designated sponsor	HSBC Trinkaus & Burkhardt

DEUTZ shares relative to DAXsector Industrial and SDAX (indexed)



ALL DEUTZ SHARES IN FREE FLOAT

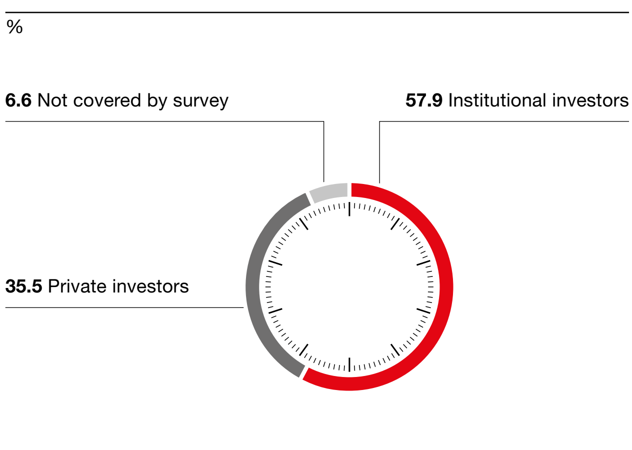
100 percent of DEUTZ AG's shares are in free float. As regards the shareholder structure, the proportion of the shares held by private investors increased in the reporting year. They held 35.5 percent of the shares as at December 31, 2020 (December 31, 2019: 28.0 percent), while the proportion held by institutional investors stood at 57.9 percent (December 31, 2019: 64.6 percent). The majority of the private investors are in Germany. US investors dominate among the institutional investors, holding a total of 22.0 percent of the shares, while German fund management companies hold 17.8 percent.[1]

[1] IHS Markit, December 2020.

At the end of 2020, the following companies held more than 3 percent of the shares in DEUTZ AG: Union Investment (Germany) 6.2 percent, Dimensional Holdings (USA) 4.6 percent, DWS Investment (Germany) 4.2 percent, Lupus Alpha Asset Management (Germany) 4.11 percent, AllianceBernstein (USA) 4.06 percent, Janus Henderson (UK) 4.02 percent, Acadian Asset Management 3.45 percent, and Norges Bank Investment Management (Norway) 3.22 percent[1]

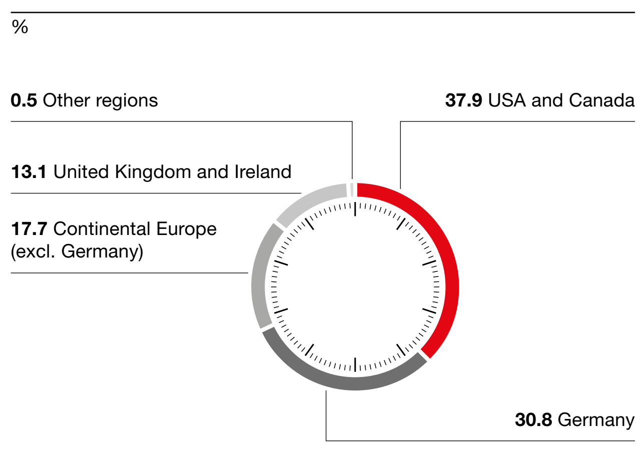
Voting right notifications pursuant to section 40 (1) of the German Securities Trading Act (WpHG) and notifiable managers' transactions in securities pursuant to article 19 of the Market Abuse Regulation (MAR) are published on our website at **www.deutz.com** under Investor Relations.

Shareholder structure[1]



[1] IHS Markit, December 2020.

Shareholder structure by country (institutional investors)[1]



[1] IHS Markit, December 2020.

DIVIDEND

We strive to fund a significant proportion of our growth strategy ourselves, that is to say from our own capital. At the same time, we want our shareholders to participate in the success of our Company in the form of an adequate and regular dividend. However, no dividend will be distributed for 2020 because of the accumulated loss of €33.1 million recognized in 2020. We are retaining our fundamental, medium-term dividend policy, under which we aim to distribute 15 percent to 30 percent of net income over a multi-year period.

TRANSPARENT CAPITAL MARKETS COMMUNICATIONS

The objective of our investor relations work is to provide all stakeholders with transparent information about current and future developments in the DEUTZ Group and thereby to build long-term trust in our Company and thus its shares. To this end, we undertake to comply with the transparency guidelines in the German Corporate Governance Code, always communicating with shareholders, financial analysts, and all other interested capital market players comprehensively, promptly, and openly.

As in previous years, DEUTZ engaged in intensive dialog with the capital markets in 2020. In addition to producing regular financial reports, we provided details of current business performance and other key developments during conference calls and in periodic investor news publications. The Board of Management and the Investor Relations management team were also available for talks with interested parties from the capital markets at conferences, roadshows, and private meetings, all of which took place virtually due to travel restrictions and other measures in place to contain the spread of coronavirus. The main subjects discussed were the impact of the coronavirus crisis on the Company's current business performance, and the prospects for strategic growth, including the pushing back of the medium-term targets that was announced at the end of the year due to coronavirus.

ANALYSTS' RECOMMENDATIONS

The assessments and recommendations of financial analysts provide a basis for equity investments by private and institutional investors. A total of eight banks and securities houses currently produce regular reports on DEUTZ shares.

Analysts' recommendations[1]

Institution	Date	Target price (€)	Recommendation
Berenberg	Feb. 2, 2021	6.00	Hold
Commerzbank	Nov. 11, 2020	5.00	Hold
DZ Bank	Feb. 19, 2021	7.70	Buy
Hauck & Aufhäuser	Feb 3, 2021	12.00	Buy
HSBC	Nov. 25, 2020	5.50	Hold
Kepler Cheuvreux	Feb. 15, 2021	7.00	Buy
M. M. Warburg	Nov. 24, 2020	5.90	Buy
Quirin	Nov. 12, 2020	5.30	Hold

[1] As at February 26, 2021; references to such recommendations and evaluations are made solely to provide readers with information on a non-binding basis. They do not mean that DEUTZ AG endorses, supports, or confirms the recommendations, opinions, or conclusions of the equity research analysts in any way. DEUTZ AG accepts no liability for the selection of analyst recommendations and assessments reproduced here, nor does it accept any liability for whether they are up to date, complete, or accurate. None of the information provided here should be construed as an offer to buy DEUTZ shares, nor does it constitute marketing for DEUTZ shares. DEUTZ AG's liability for loss or damage suffered by third parties as a result of information provided here is excluded.

Further information and publications on the DEUTZ Group and DEUTZ shares can be found on our website at **www.deutz.com.**

INDEX FOR MANAGEMENT REPORT

FUNDAMENTAL FEATURES OF THE GROUP

BUSINESS MODEL AND SEGMENTS

DEUTZ is one of the world's leading manufacturers of drive systems for off-highway applications. The Company was founded in 1864 and has around 4,600 employees worldwide. Its core competencies are the development, production, and distribution of drive solutions with a power output of up to 620 kW for **off-highway** applications. The current 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. We also offer a comprehensive range of 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 as well as the joint venture with SANY, which is accounted for under the equity method. 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. The Torqeedo subsidiary is included in the Other segment and focuses on electric-powered watercraft. Futavis, a development service provider that specializes in high-voltage battery management systems and safety engineering, is also included in the Other segment. It was acquired in 2019.

MARKET AND COMPETITIVE ENVIRONMENT

Sales of engines based on diesel technology are focused on the Europe, North America, and Asia regions, and in the case of the latter particularly China. We face competition from rival engine suppliers, mainly in western Europe, North America, and Asia.

DEUTZ's main competitors by application

Application segments	Applications	Main competitors (in alphabetical order)
Construction Equipment	Excavators Wheel loaders Pavers Mining equipment	Cummins, USA Isuzu, Japan Perkins, UK Yanmar, Japan
Material Handling	Forklift trucks Telehandlers Lifting platforms Ground support equipment	Cummins, USA Isuzu, Japan Volkswagen, Germany Yanmar, Japan
Agricultural Machinery	Tractors Harvesters	Fiat Powertrain, Italy John Deere, USA Perkins, UK Yanmar, Japan
Stationary Equipment	Gensets Pumps Compressors	Cummins, USA Kubota, Japan Perkins, UK Yanmar, Japan
Miscellaneous	Rolling stock Special vehicles Trucks Buses	Cummins, USA Fiat Powertrain, Italy MAN, Germany Mercedes, Germany

STRATEGY AND OBJECTIVES

Our primary objective is to become the world's leading manufacturer of innovative drive systems and a trailblazer of off-highway technology for a zero-carbon future. At the same time, we want to achieve profitable and sustainable growth and have set ourselves clear medium-term targets with this in mind: revenue in excess of €2 billion and an EBIT margin before exceptional items of between 7 percent and 8 percent.

We originally wanted to achieve our medium-term targets in 2022. However, we had to revise our outlook in 2020 to state that we now believe that these targets will not be achieved until 2023/2024. This is primarily due to the macroeconomic impact of the coronavirus crisis, which caused DEUTZ's engine business to contract sharply in the reporting year. Furthermore, customers are expected to remain reluctant to invest in the months ahead, and demand is therefore likely to recover more slowly than originally anticipated.

We want to achieve our financial objectives while fulfilling our corporate, social, and environmental responsibilities. In 2019, we therefore adopted a groupwide sustainability strategy, 'Taking Responsibility', and set various non-financial targets, for example reducing emissions and the volume of waste at our production sites, reviewing the sustainability performance of our suppliers, and increasing the proportion of women in the workforce. See also 'Non-financial report', p. 70 onward.

Further development of the product portfolio We have a broad product portfolio that is geared to our customers' different needs and is thus being continually refined as requirements and the environment in which we operate change. As different applications require different drive solutions, we take a technology-neutral approach. This means that we focus on offering a combination of diesel, gas, petroleum, hydrogen, hybrid, and electric drives.

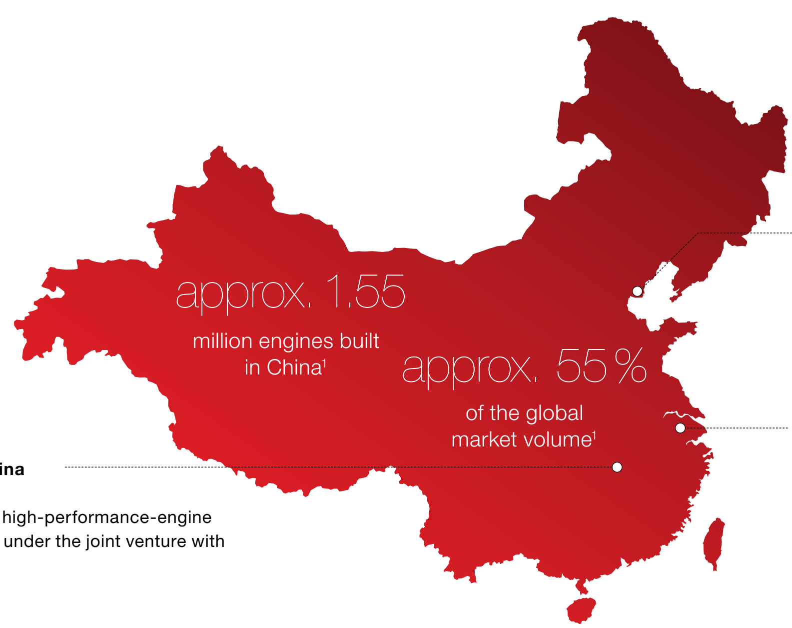
Keeping in mind our primary objective of becoming a trailblazer for a zero-carbon future, we are particularly proactive in promoting the use of drive solutions that offer a more climate-friendly alternative to the classic internal combustion engine. We strongly believe that hybrid and all-electric solutions will play a key role. This is why we initiated our E-DEUTZ strategy in 2017. Its aim is to develop a scalable portfolio of hybrid and all-electric drives to meet specific customer requirements. Our role is to act as both systems engineering partner and systems integrator. That means that we supply a harmonized system consisting of an electric motor, battery, power electronics, reduction gear for traction, and work units, along with control software for battery management, functional safety, and actuator logic. See also 'Research and development', p. 28 onward.

In connection with the updates to our medium-term planning, we also adjusted the target set in 2018 for 2022 as part of our E-DEUTZ strategy, whereby electric drive systems are to account for between 5 percent and 10 percent of consolidated revenue. The achievement of this target too is now not expected until 2023/2024.

In addition to our inhouse research and development activities, we also invest in strategic partnerships and acquisitions that complement or extend our expertise in order to further develop our portfolio.

Regional growth initiatives The strategic focus of our regional growth initiatives mainly lies in realizing growth potential in Asia, primarily in China, strengthening our market position in the USA, and expanding our global network of dealers and service outlets.

China is the world's largest individual market for construction equipment with a share of around 55 percent[1] of the global engine market. As well as growing steadily, this market is undergoing a fundamental shift. The Chinese government is introducing increasingly stringent emissions regulations and at the same time focusing more on advancements in diesel engines as well as alternative drive technologies such as electrification, sustainable fuels, and hydrogen drives. This creates significant potential for growth for us, which we intend to unlock by implementing the strategic measures that we have defined for China.



Tianjin, China

Location of the new factory for local contract manufacturing under strategic alliance with BENEI

Kunshan, China

Location of a SANY engine factory that was integrated into DEUTZ's network of production facilities in 2020

Changsha, China

Location of the high-performance-engine assembly plant under the joint venture with SANY

[1] PSR download, January, 2021. Based on the OEM production volume (units) in 2020; power output from 19 to 620 kW, non-captive.

Under our China strategy, we established a joint venture with SANY in 2019. In this joint venture, we have taken over the manufacture of both construction equipment engines and heavy truck engines for SANY, which means we have expanded into the on-highway segment. We have also entered into strategic alliances in the Chinese market. One of these is with diesel engine manufacturer BEINEI, which provides assembly services, and another is with FAR EAST HORIZON, China's largest construction equipment leasing company. In cooperation with our local partners, we have begun to increase local production capacity in order to ensure that we are best placed to meet the demand from local customers. See also 'Production and logistics', p. 30 onward. We can also tap into an extensive service network that we will systematically enhance with digital solutions.

Because the volume planned for the joint venture matched the existing market demand in the year under review and we anticipate being able to capture market share from our competitors, we raised our 2022 revenue target for China from around €500 million to approximately €800 million[1] in 2020.

Expansion and digitalization of the service business

The expansion of the high-margin service business is another mainstay of our growth strategy, and we are forging ahead with this by broadening our service network and continually adding to our product portfolio. We offer our customers a range of services that cover the entire product lifecycle and position ourselves as a full-service provider.

The expansion of our service portfolio is focusing not only on building up the Xchange business, in which we offer reconditioned engines and spare parts, but also on the digitalization of our service concepts. The next step is to broaden the service offering to include features such as engine condition checks and service alerts based on telematics. New 'analog' service concepts include a Lifetime Parts Warranty, which we have been offering since the start of 2021 for parts fitted by an authorized DEUTZ partner. We are also expanding the range of maintenance and repair services for both DEUTZ and non-DEUTZ engines that we carry out for customers in situ. This should enable us to attract more fleet operators as customers and will be based on a man-in-van concept, whereby mobile service technicians travel to customers' sites in fully equipped vans. Furthermore, we intend to open up new distribution channels for parts and, at the same time, integrate external platforms into our service concept.

In addition to investment in our own service centers (e.g. the new DEUTZ Power Centers that opened in the USA and Russia in 2020), we aim to expand our service network by acquiring selected dealers and thereby achieve global coverage. In 2020, to help achieve this, we acquired the companies DEUTZ Austria GmbH, Motorcenter Austria GmbH, and Pro Motor Servis CZ s.r.o., which sell and service diesel engines in Austria, the Czech Republic, Hungary, Slovakia, and Slovenia, providing us with direct access to the markets in these countries.

Despite the macroeconomic impact of the coronavirus crisis, we are retaining our target for 2021 of increasing our revenue from the service business to approximately €400 million. Service revenue in 2020 came to €348.3 million.

Process optimization In order to maintain the Company's long-term competitiveness, our strategic measures continue to be aimed at progressively improving processes in all areas of the Company and thereby boosting efficiency. The main focus of our current measures is on optimizing distribution and the global production and procurement network, improving quality, automating and digitalizing operational and administrative processes, reducing complexity, and adjusting operating costs. In this context, we launched a comprehensive efficiency program at the start of 2020 that will help us to achieve these and other objectives. See also 'Transform for Growth', p. 25.

[1] The revenue target includes the revenue generated from the joint venture with SANY, which is not included in the consolidated financial statements because the joint venture is accounted for using the equity method. However, the share of profit (loss) is included.

'TRANSFORM FOR GROWTH' EFFICIENCY PROGRAM

At the start of 2020, we launched a Company-wide efficiency program, 'Transform for Growth', in order to secure our earnings performance in a challenging market environment and maintain our long-term competitiveness at global level. An extensive and detailed action plan was drawn up in the second quarter, focused on optimization of the global production network, automation and digitalization of operational and administrative processes, group-wide streamlining of the organizational structure, and reduction of complexity. Efficiencies within the organization are to be leveraged, for example by combining certain functions, consolidating activities, and making more extensive use of data and IT tools.

By taking these measures, we intend to realize gross annual cost savings of around €100 million compared with the base year of 2019. The full effect is expected to be achieved from the end of 2022 onward.

As well as adjusting operating costs, a large part of the savings are to be achieved by reducing staff costs. This includes making substantial job cuts across the Group. We are striving to minimize the social impact of the personnel adjustment for all employees and in the second half of the year, as part of this initiative, we reached agreement with the employee representatives on a key issues paper called 'DEUTZ Pact for the Future – Transform for Growth'. This includes a voluntary redundancy program running from September 1, 2020 to March 31, 2021 that will facilitate a reduction in the number of employees at the German sites by up to 350. Support for the voluntary program was provided through the establishment of an interim employment company and the agreement of a social compensation plan. The interim employment company takes on employees who have left the Company under the program and supports them for a period of no longer than twelve months in finding a new job. While at the interim employment company, each former employee receives a salary which includes the short-time working allowance for interim employment. Participation in the voluntary redundancy program also requires the approval of the Company. In imposing this requirement, we want to make sure that we do not lose workers with the skills and knowledge that we need. The voluntary redundancy program had already been taken up by a total of 171 employees by the end of 2020.

In 2020, restructuring costs totaling €31.9 million were recognized. These costs mainly encompass severance payments and other costs that are directly related to the restructuring.

Following agreement of the aforementioned key issues paper, the IG Metall labor union and the employers' association also agreed on a supplementary collective pay agreement with a three-year term that covers three main points: as well as the protection of jobs and sites in Cologne, Herschbach, and Ulm, around €41 million is to be invested in the German sites, primarily in order to enhance productivity and innovation in production, assembly, and research and development and thus boost our competitiveness. In addition, employees also made undertakings in order to secure the future of the sites, including increases in working hours during the term of the agreement.

MAIN SITES AND BASIS OF CONSOLIDATION

DEUTZ AG is the executive and operating parent company in the DEUTZ Group; it is headquartered in Cologne, Germany. It has various investments in Germany and abroad, including several companies that perform sales and service functions, plus production facilities in China, Germany, Morocco, Spain, and the USA.

In 2020, DEUTZ acquired the companies DEUTZ Austria GmbH, Motorcenter Austria GmbH, and Pro Motor Servis CZ s.r.o., which sell and service diesel engines in Austria, the Czech Republic, Hungary, Slovakia, and Slovenia. DEUTZ Global Service Center, S.L. was established in Zafra, Spain. Having previously been unconsolidated for reasons of materiality, the subsidiary DEUTZ DO BRASIL LTDA., São Paulo, Brazil, was included in the consolidated financial statements of DEUTZ AG due to an increase in business activity. PTO Power B.V., Dordrecht, Netherlands, which was not operational, was wound up.

In addition to DEUTZ AG, nine German companies (December 31, 2019: nine) and 24 foreign companies (December 31, 2019: 20) were included in the consolidated financial statements as at December 31, 2020. A complete list of DEUTZ AG's shareholdings as at December 31, 2020 can be found in the annex to the notes to the consolidated financial statements. See also 'Shareholdings of DEUTZ AG', p. 164.

INTERNAL CONTROL SYSTEM

The DEUTZ Group defines its budget targets and medium-term corporate targets using selected key performance indicators (KPIs). In order to increase profitability and achieve sustained growth, we manage the Group on the basis of the following financial performance indicators. These KPIs are alternative performance measures that are not defined in the International Financial Reporting Standards (IFRS). A reconciliation of these KPIs to the amounts recognized in the financial statements is provided below.

Key performance indicators[1]		**2020**	2019
Revenue growth	%	–29.6	3.5
EBIT margin (before exceptional items)	%	–5.8	4.3
Working capital ratio (average)	%	21.8	17.4
ROCE (before exceptional items)	%	–8.1	9.0
R&D ratio	%	6.3	5.2
Free cash flow	€ million	–35.8	–36.6

[1] Alternative performance measures.

Revenue growth DEUTZ strives to steadily increase revenue as the basis for the profitable growth of the Company. The level and growth of revenue is determined on a monthly basis, broken down by product group, application segment, and region. This data is provided to senior management promptly so that it can, if necessary, react quickly to changes as they materialize.

EBIT margin (before exceptional items) The main key performance indicator that we use to manage the Company's operating performance is the EBIT margin before exceptional items. It is based on the Group's earnings before interest and tax (EBIT). The EBIT figure is then adjusted for exceptional items and calculated as a percentage of revenue. We define exceptional items as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities that are unlikely to recur. Adjusting for exceptional items enables a more accurate comparison of the Company's operating performance over time. The EBIT margin before exceptional items is, like revenue growth, calculated monthly and presented to senior management as part of internal reporting. Restructuring costs totaling €31.9 million were recognized as an exceptional item in 2020 after measures initiated under the 'Transform for Growth' efficiency program, which was launched at the beginning of the year, were set out in greater detail in the third quarter.

Working capital ratio (average) We manage the Company's tied-up capital using the average working capital ratio. This is the ratio of average working capital over the past four quarters to revenue for the preceding twelve months. Working capital comprises inventories plus trade receivables less trade payables. Along with revenue growth and the EBIT margin (before exceptional items), this key figure is calculated monthly and presented to senior management.

ROCE (before exceptional items) The return on the capital employed in the Group is measured and managed on an annual basis using the key figure ROCE (before exceptional items), which is calculated as follows:

ROCE[1]

€ million

	2020	2019
Total assets	1,180.5	1,301.2
Cash and cash equivalents	–64.7	–55.3
Trade payables	–153.0	–180.6
Other current and non-current liabilities	–60.0	130.6
Capital employed	**902.8**	**934.7**
Capital employed (average for the year)[2]	**918.8**	**873.0**
EBIT before exceptional items (operating profit/loss)	**–74.7**	**78.8**
ROCE (before exceptional items, %)	–8.1	9.0

[1] Return on capital employed.
[2] Average of the opening and closing balances.

R&D ratio As a technology-focused company, we consider the R&D ratio to be one of the most significant performance indicators in our internal management system. It is the ratio of research and development expenditure (after deducting grants) to revenue in the period in question. The R&D ratio is calculated monthly and reported to senior management.

Free cash flow The DEUTZ Group uses free cash flow as its main performance indicator for managing liquidity. It comprises net cash provided by, and used for, the operating activities and investing activities of the Group during the period in question less interest payments in connection with financing activities. We can thus show what cash flow generated in the relevant year is available to the Company, e.g. for repaying liabilities or paying a possible dividend to shareholders. Free cash flow is reported to senior management monthly.

Based on the performance indicators described here, DEUTZ has set up an early warning system in order to be proactive and respond promptly. At the same time, we operate a rigorous system of causal analysis to ensure that we minimize risks and make the most of opportunities. Three times a year, we produce an annual forecast for all key performance indicators, which ensures transparency with regard to our business performance.

In addition to the financial performance indicators that form part of the management system described above, we also employ other metrics to measure our economic performance. These include, but are not limited to, new orders received, revenue and unit sales on the income side, the working capital as at the reporting date with regard to tied-up capital, and earnings before interest, taxes, depreciation, and amortization (EBITDA). Moreover, the Group net income and the DEUTZ AG statutory income in accordance with the German Commercial Code are significant factors for us as regards dividend payments.

Continuous optimization of the control system Regardless of fluctuations in the economic cycle, one of the DEUTZ Group's aims is the continuous optimization of its management systems. This essentially involves the annual planning of all performance indicators specified here, taking account of internal estimates of future business as well as benchmark figures from competitors. Each organizational unit prepares detailed plans for its area of responsibility, which are then coordinated with management. Both the specific unit sales and revenue targets and the customer and product-related targets (EBIT margins) are aligned with the operating units each year, taking groupwide objectives into consideration. This means that they are available at the relevant hierarchical level for use in operational management.

Working capital targets are specified for the individual companies in the DEUTZ Group in order to optimize the capital tied up in the business. These overall figures are then broken down and specific targets for inventories, trade receivables, and trade payables are allocated to the relevant individual employees.

We are pursuing long-term growth objectives. In order to secure the financial basis for this, we have made the management of capital expenditure a central element in the management of tied-up capital: Clearly specified budget figures set out the framework for the level of capital expenditure and development expenditure; actual requirements are derived from the medium-term planning of unit sales and the resulting requirements in terms of capacity and technologies. Annual budget meetings are held to coordinate individual projects, development expenditure, and planned capital expenditure with the groupwide financial planning process and to record the outcomes. An additional detailed review is carried out before projects are actually approved. To this end, we use standard investment appraisal methods such as the internal rate of return, the amortization period, the net present value, the impact on the income statement, and cost comparisons. A project with an appropriate budget is only approved if there is a clear positive outcome from this investment appraisal.

RESEARCH AND DEVELOPMENT

In addition to compliance with statutory emissions legislation, our research and development activities are heavily influenced by climate change and the related debate about reducing harmful greenhouse gases.

Based on the **Paris Agreement** from 2015, the EU, its member states, and other countries agreed to limit global warming to no more than 1.5°C. Unlike for cars and commercial vehicles, there are currently no legal proposals or limits aimed at reducing the CO_2 emissions of mobile machinery. Nonetheless, their impact on the climate is still being discussed intensively. DEUTZ is keen to play a proactive role in this context and to offer efficient and carbon-neutral drive solutions to its customers in the future.

Given that our wide-ranging application segments require different drive solutions, we develop our portfolio in such a way that our products are compatible with different technologies and we are taking a two-pronged technological approach in our efforts to achieve a carbon-neutral future. In the years ahead, internal combustion engines will continue to predominate for mobile machinery, which is why our activities will remain focused on the use of alternative fuels such as natural gas, which produces markedly lower CO_2 emissions due to the more favorable bonding of hydrocarbon compounds. We are also developing our engines so that they can be powered by hydrogen, which can be generated from renewable sources, and synthetic fuels (also knowns as **e-fuels**). These are virtually carbon-neutral. The second part of our two-pronged approach is the expansion of electrification, which will involve offering both hybrid and all-electric drive systems to our customers.

Impact of the coronavirus crisis on R&D activities The outbreak of the coronavirus pandemic and the resulting impact on the economy as a whole, and thus on our engine business, prompted us to review our development projects and capital expenditure on R&D. This resulted in a reprioritization in 2020 that in turn led to the postponement of individual projects, for example in preliminary development. The R&D budget was reduced by a figure in the mid-single-digit millions of euros. Projects relating to EU Stage V were not affected by the changed priorities, however, so there was no impact on strategic projects or volume production projects.

Emissions legislation Irrespective of our goal of becoming a trailblazer for a zero-carbon future in the off-highway segement, the ongoing development of our engines is also heavily influenced by laws and legislation in the form of emissions restrictions, exhaust emissions standards, and noise regulations. Our research and development activities are therefore focused on bringing our drive portfolio into line with current and future emissions standards, such as **EU Stage V** and **China IV**.

Since the start of 2020, all engines in the 56 to 130 kW power output range have had to meet EU Stage V. We went into full production with these engines in 2020.

In December 2020, the Chinese authorities published the emissions legislation for the China IV emissions standard, which will come into force for engines with a power output of up 560 kW on December 1, 2022. We are continuing to optimize our engine series in readiness for the new standard. In the power output range of less than 130 kW, changes are being made to the technological basis of these engines so that they comply with the emissions limits without requiring an **SCR system** to reduce nitrogen oxide emissions. In the power output range of more than 130 kW, product optimization has begun for one engine series. This involves the elimination of exhaust gas recirculation when an EU Stage V exhaust aftertreatment system is being used.

It is not currently known whether a further emissions standard will be introduced in the USA.

Expansion of the product portfolio At the end of 2020, we formed a development alliance with John Deere Power Systems in order to add to our portfolio of engines with outputs up to 130 kW. The partnership will encompass almost the entire product development process, including design, functional testing, validation, and field testing. The joint development work will cover the hardware and design of the engine, from which each company will customize the base engine by adding its own software and controls. The project and development work will be under the leadership of DEUTZ. Individual activities will be distributed among the partners in a such a way that the optimum resources and skills can be deployed for each work package. By combining the purchasing volumes in the procurement partnership that was formed at the same time, we can also negotiate lower purchase prices with our suppliers as a result of economies of scale. This will benefit both DEUTZ and John Deere.

In addition, we will close a performance gap in our 4 to 8 liter portfolio with the DEUTZ TCD 5.2, which is a new derivative of the DEUTZ TCD 7.8 with four cylinders. Because of the high level of synergy with our existing 7.8 liter six-cylinder engine, we will be able to keep our expenditure on this new development very low. As part of the development of the TCD 5.2, we delivered a number of prototypes to customers for field testing during the reporting year. The development process is on schedule and preproduction engines are due to be shipped in 2022.

In 2020, our range of larger engines with a higher power output was expanded when we introduced the TCD 18.0, a six-cylinder in-line engine that complies with the **China IV**, **EU Stufe V**, and **US EPA Tier 4** emissions standards.

Electric drive solutions Under our E-DEUTZ strategy, launched in 2017, we are broadening our engine portfolio to include battery-powered and hybrid drive concepts, the advantages of which include the reduction of harmful CO_2 and noise emissions. This means electric and hybrid drives could pave the way for new applications, for example in enclosed spaces (e.g. lifting platforms) or low-emission zones. They will also enable operating costs to be lowered.

In the coming years, the E-DEUTZ development team will focus on developing four basic drive train designs (some all-electric and some hybrid) for customer applications in the low and medium power output range, for example ground support equipment, construction equipment, and agricultural machinery. The aim is for these solutions to reach market maturity by the end of 2023. The first step will be to market an all-electric 360-volt base drive system this year. In 2020, a prototype agreement was concluded with a customer and an initial drive system prototype has been delivered. The agreement covers a 42 kWh lithium-ion battery produced inhouse that was tested by the TÜV product standards regulator and passed key functional and safety tests in accordance with the ECE R100 directive, which defines safety technology requirements for electric-powered drive systems in road vehicles. In the second step, a 48-volt base drive train, a 360-volt hybrid **powerpack**, and a 48-volt hybrid powerpack will be introduced by the end of 2023.

In addition, the idea for a mobile E-DEUTZ charging station for electric-powered construction vehicles was sketched out and a technical concept was subsequently developed in 2020. Implementation of the project has begun in collaboration with a key customer.

In the area of electric-powered watercraft, our subsidiary Torqeedo began a project in 2020 to update its Cruise series of motors for recreational and commercial applications in the low-voltage range (less than 50 volts). As part of this, a new system for transmitting data, a data bus communication system named TorqLink, is to be introduced that makes it easier to set up and implement more complex drive systems that include, for example, multiple batteries, different chargers, and different control units. In the medium term, it should also be possible to add further components. The first product for which the development phase has been completed is the updated Cruise 10.0 motor, which will be launched on the market in the second quarter of 2021 once a series of tests have been successfully completed.

A new, low-cost throttle for the TorqLink systems has now been developed too. It has a completely redesigned user interface that enables our customers to access additional information and the settings for the TorqLink drive systems from a fully graphical display.

At the start of 2020, Torqeedo also formed a partnership with ZF. The objective is to integrate the new generation of ZF's fixed and steerable saildrives with Torqeedo's Deep Blue drive systems. Coronavirus resulted in significant changes to the original plans, and only the projects for developing fixed saildrives with a power output of 50 kW and 100 kW have been completed. The resulting products are due to be installed in the first customer boats during the course of 2021.

As part of the expansion of Futavis's battery business, preproduction of high-voltage batteries got under way at Torqeedo's site at the end of 2019. Developed and certified by Futavis, the batteries are assembled at the Torqeedo site and undergo a functional and safety test as part of **end-of-line testing**. The high-voltage batteries are retrofitted in the electric buses of a major German customer.

Hydrogen-powered drives Following the development of a concept for a hydrogen-powered prototype based on a 7.8 liter DEUTZ engine in a development partnership with KEYOU, a start-up located in Munich, we implemented a joint predevelopment project in 2020 in which we increased the power of the hydrogen-powered engine. We are also planning to develop an H_2 **genset**. It is expected to be presented in the second half of this year.

Enhancement of the service portfolio A key focus in the area of digital services is the transfer and analysis of data. To this end, we expanded our **IoT** infrastructure in the reporting year. We also designed the basis for a **telemetry** solution and, using the new IoT infrastructure, carried out initial field tests with customers. Digital services that diagnose and interpret errors and recommend specific courses of action are still going through the final tests, as are new digital tools used at the 'point of service', such as the DEUTZ advanced service tool, the digital service and repair checklist, and **condition monitoring** for DEUTZ engines. They are intended to reduce our engines' downtime in the event of a servicing or repair job.

R&D spending Expenditure on research and development in 2020 amounted to €84.3 million, compared with €98.9 million in the prior year. After the deduction of grants received from development partners and subsidies, expenditure fell from €95.8 million in 2019 to €81.4 million in 2020, primarily because of the impact of the coronavirus crisis. Capitalized development expenditure after deducting grants amounted to €12.6 million. The R&D ratio after deducting grants[1] rose from 5.2 percent in the prior year to 6.3 percent in 2020 due to the unusually sharp decline in revenue.

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

€ million (R&D ratio, %)

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

R&D spending by the DEUTZ Compact Engines segment after deducting grants came to €60.8 million and that of the DEUTZ Customized Solutions segment came to €11.8 million. The Other segment's R&D spending after deducting grants amounted to €8.8 million.

PRODUCTION AND LOGISTICS

Despite the impact of the coronavirus pandemic on our operating activities, we forged ahead with the optimization of our production processes and the expansion of our production network in 2020. We focused in particular on further developing the global 'Operations' area of responsibility, making preparations for the restructuring of our global **supply chain management**, and continuing to expand our production network in China.

Another key activity was the introduction of the measures set out in the Company-wide efficiency program 'Transform for Growth', some of which build on projects that have already been initiated. The measures are aimed, for example, at optimizing the manufacturing costs of our finished products, reducing overheads, and increasing the level of automation and digitalization in our plants, with the overall objective of maintaining the long-term competitiveness of our products. See also 'Transform for growth', p. 25.

Impact of the coronavirus crisis on production and logistics At the start of the second quarter, large parts of production in Europe closed down, initially until mid-April, due to the outbreak of the coronavirus pandemic. This was partly because many of the DEUTZ Group's customers had already shut down their production or announced plans to do so imminently, and partly because the preventive measures introduced to ensure physical distancing in assembly meant that efficient production was no longer possible. At the end of March 2020, DEUTZ also applied for Company-wide short-time working at all German sites, which was approved for Cologne, Herschbach, and Ulm until December 2020, and decided to discontinue the use of all temporary workers in the production and assembly operations to take account of the lower capacity utilization.[2] See also 'Employees', p. 34

While the DEUTZ site in Zafra, Spain, resumed production on April 14, 2020, operations in the German plants restarted gradually, beginning on April 20, 2020. Production volumes were based largely on customer demand, which continued to fall at first as the economic fallout from the coronavirus crisis took its toll in what was already a challenging market environment. Although production volumes were gradually ramped up again in the second half of the year, it was not possible to return even close to pre-crisis levels because customers remained reluctant to invest.

[1] The ratio of net development expenditure to consolidated revenue.
[2] See the ad hoc disclosure dated March 25, 2020.

Lean philosophy We have adopted a **lean philosophy** as we continue to develop our gobal 'Operations' area of responsibility. This means that processes are initially analyzed on a holistic basis in order to determine the optimum flow of materials and information. The entire value stream is examined and this can highlight, for example, a suboptimal use of resources or process steps that add little value. With the involvement of relevant employees and the aid of agile working methods, the insights gained and shortcomings identified are then used as a basis for developing and implementing appropriate solutions. The result is that sustained improvements can be made to key performance indicators for this area, such as product quality, productivity, manufacturing costs, and delivery reliability, as well as innovation.

Global supply chain management In 2020, in order to respond flexibly to the changing global situation, we launched a three-stage project as part of the restructuring of our **supply chain**. The first step was to develop a vision for a value chain geared to the needs of the future, and now the next step in 2021 is to set out a roadmap for implementation across the Company. At the same time, a global organizational model is being set up. This comprehensive restructuring of the value chain is aimed at adding value for our customers through the creation of new supply models with defined completion stages, and through reliable yet flexibly structured processes, simplified workflows, and faster reaction times.

Production sites

The DEUTZ Group benefits from a global production network with a total of nine plants in Germany, China, Spain, Morocco, and the USA.

Germany: Cologne, Herschbach, and Ulm plants The DEUTZ Group headquarters in Cologne-Porz, the largest site in the Company's production network, is the location of the assembly plant for production engines with capacities of less than 4 liters and between 4 and 8 liters.

A milestone was reached here in the second half of 2020 after a new assembly line for diesel, gas, and bi-fuel engines with capacities of less than 4 liters was brought on stream. This new assembly line has significantly optimized the production processes for the 2.2, 2.9, and 3.6 engine series. Automated guided vehicle systems are used to transport materials directly to the material staging areas at the assembly line completely automatically. The materials for the workstations are then pre-assembled and moved to the appropriate stations. Processes are made more efficient thanks to a flowing system that enables work to take place at more than 70 assembly stations where the pre-assembled components and modules are put together. In order to satisfy our quality requirements, all threaded connection processes are monitored, cameras are used to document critical assembly steps, and individual processes are supported by collaborative robots. The engines are subsequently checked using a **cold test** that is integrated into the value stream. This has brought lasting reductions not only to lead times but also fuel consumption at the plant. Virtual simulation of the processes and movements at an early stage of development enabled the production processes to be optimized for our employees too, taking account of ergonomics and health and safety aspects. Each assembly station, for example, can be individually adjusted to the height of the relevant employee.

We are also working with the value stream method at our mechanical centers of excellence, including the shaft center, which manufactures camshafts and crankshafts in Cologne-Porz, the crankcase manufacturing site in Cologne-Kalk and at the components plant in Herschbach that manufactures and assembles complex add-on components. As the result of a related project, we succeeded, for example, in reducing average lead times for the orders that we process at the shaft center by more than 50 percent over the course of the year.

Production of the 4.1 liter engine block was brought fully inhouse at our Cologne-Kalk site in 2020. This has not only minimized risks resulting from potential supplier insolvencies but also cut down on material costs.

In 2020, at the Ulm plant, we further optimized the processes for the 2011 engine series assembly that was relocated from Cologne to Ulm in 2019 and significantly increased productivity as a result. Due to the insolvency of a supplier, the Ulm plant was also set up to manufacture crankcases for the 7.8 and 2013 4V engine series. The Ulm plant plays the leading role within our network of production sites when it comes to small production runs of engines and their components. It also processes exchange engines for our DEUTZ Xchange business, which provides our customers with reconditioned engines and spare parts. Exchange engines continued to be produced even during the lockdown in April 2020.

Spain: Zafra plant This components plant, run by our Spanish subsidiary DEUTZ Spain at its Zafra site, is a center of excellence within our network of production sites. It specializes in the processing and pre-assembly of cylinder heads, crankcases for engines with capacities of less than 4 liters, conrods, and gearwheels.

DEUTZ Spain had also taken on the production of the 3.6 liter crankcase in 2019 following the insolvency of a supplier. In 2020, to further eliminate the risk of supply bottlenecks due to the insolvency of external suppliers, all aspects involved in the processing of this part were relocated to the Zafra plant. This also brought significant savings on the cost of materials.

In the process of delivering the **Industry 4.0** strategy, a pilot project was launched in Zafra for conrods used in engines with capacities of less than 4 liters. The objective is to set up a fully automated manufacturing cell that digitalizes its information and thus enables the machines to access the key operating indicators online. As well as raising efficiency, the delivery of this smart factory concept also has the potential to optimize the quality of the main products for the new generation of Tier 5 engine components.

USA: Atlanta plants In 2020, to further the growth of our DEUTZ Xchange business and value-added production in the USA, we expanded the Xchange engine removal facility and modified and restructured the spare parts logistics facility. Production of 2.9 and 3.6 series Xchange engines also commenced in the USA.

Morocco: Sapino plant After our MagiDEUTZ subsidiary's production facilities were moved in 2019 from the center of Casablanca to a new plant in Sapino, the focus of the activities of our Moroccan production site in 2020 was on stabilizing the processes there. The logistics and quality processes of the new assembly line were optimized and the planned increase in capacity was achieved.

China: Kunshan, Changsha, and Tianjin plants In 2020, as part of the joint venture with SANY, an existing SANY plant at the Kunshan site that produces engines for trucks, construction equipment, and concrete pumps was integrated into the DEUTZ network of production sites. A new assembly plant for high-performance engines is also currently being constructed not far from SANY's headquarters in Changsha. Under the joint venture with SANY, this plant is set to produce around 80,000 new engines in 2022 that will comply with the China 4 emissions standard for off-highway applications and the China 6 emissions standard for on-highway applications. Construction began at the end of 2020 and the building is scheduled to be completed by the end of 2021. The plan is for the plant to commence operations in 2022 with an annual production capacity of up to 200,000 engines in the medium term.

In 2020, the assembly plant at which DEUTZ partner and diesel engine maker BEINEI is contracted to manufacture DEUTZ engines for the local market was completed at the Tianjin site. Engines for lifting platforms, forklift trucks, and smaller construction equipment are made at this new factory, which serves as the production hub for the Asian market. Production of the 2.9 engine series commenced there at the beginning of 2021 as planned; production of the 6.1 engine series will follow.

PURCHASING AND PROCUREMENT

DEUTZ maintains business relationships with around 550 suppliers in more than 40 countries. The procurement of production parts, with DEUTZ AG's annual purchasing volume totaling nearly €900 million, is one of our key functions. We have detailed strategies for the product groups that we buy in the highest volumes, such as injection systems, cast and forged parts, exhaust aftertreatment systems, turbochargers, and controllers. These product group strategies are aligned with our overarching corporate strategy.

Impact of the coronavirus crisis on purchasing and procurement activities The significant impact of the coronavirus pandemic on international transport, industrial logistics chains, and the production capacities of our suppliers and their suppliers has also made the situation in purchasing and procurement exceptionally challenging in 2020. In order to mitigate delivery bottlenecks arising in the globalized logistics chains, DEUTZ has stepped up its existing supplier risk management activities and set up an overarching task force with the aim of ensuring security of supply. Various measures have been introduced, such as the greater use of existing second-source suppliers, the procurement of stocks of finished parts from suppliers in high-risk areas, the organization of special shipments, and the creation of increased inventory ranges for parts from high-risk areas. These measures resulted in higher than usual total procurement costs in the period under review.

With regard to the ongoing localization projects being run by Purchasing in China, travel restrictions meant that supplier audits could not be conducted. However, video meetings and the involvement of the local team were able to compensate for this to some extent. Delays to some sample deliveries were largely made up for with adjustments to validation runs.

Procurement market performance Prices for the commodities cast-iron scrap, iron, and steel were on an upward trend, particularly from the second half of the reporting year. In December 2020, for example, the price for iron ore and steel scrap was up by around 30 percent on the prior-year level. These increases mainly resulted from the upturn in the Chinese economy and the associated rise in demand, and from a general scarcity of supply caused in particular by the closure of mines due to coronavirus-related lockdowns.

Ongoing development of purchasing strategy Various strategic initiatives within Purchasing were formulated in 2020 as part of the implementation and ongoing development of our purchasing strategy. They are concerned not only with the broadening of the risk management system and issues related to cost, quality, and process but also with areas such as materials compliance, sustainability, and digitalization.

In order to bring about sustained cost savings, for example, DEUTZ set up a 'spend control tower' in 2020 under which expenditure across the Group is subject to a strict monitoring process. A digital ordering process was one of the projects that was implemented on the digitalization front. At the same time, the decision was taken to implement an IT-based tool in 2021 that would make it possible to structure our spending across the Group in a standardized way. The transparency that this will bring is intended to help us to forge ahead with the implementation of our product group strategies.

Ongoing development of supplier risk management In 2020, we broadened the scope of the supplier risk management system that is used to avoid disruptions to supply and to minimize and manage risks and supply shortages caused by supplier insolvencies. In the first phase, for example, we carried out a targeted survey of all production component suppliers to determine their default risk and developed detailed strategies on this basis for the high-risk suppliers. The monitoring of suppliers on an ongoing basis is intended to identify deteriorations in creditworthiness at an early stage so that appropriate action can be initiated.

In 2020, DEUTZ put in place various measures to secure the supply situation that had been affected by the insolvencies of Gusswerke Saarbrücken GmbH and Gusswerke Leipzig GmbH in 2019. In particular, this included building up backup inventories and switching to alternative suppliers. Over the coming years, the aim is also to progressively establish second-source suppliers for the key engine series so as to ensure a sustainable solution for the supply of critical components.

Localization of purchasing in China The implementation of our China strategy in 2020 saw a continued focus on the establishment of the new purchasing organization for the Chinese market. Following the launch of the first localization projects for key components and functional components in 2019, we began to localize low-value parts (C parts) such as screws and have them validated on the engine test stand.

Sustainability-oriented supplier development Suppliers are systematically managed using a 'supplier cockpit', which assists in monitoring the performance of key suppliers from a purchasing, logistics, and quality perspective. The implementation of the groupwide sustainability strategy, however, now means that the selection and assessment of suppliers is increasingly also based on sustainability criteria. In 2020, for example, a web-based assessment platform for global supply chains and a business partner compliance tool were introduced. Furthermore, DEUTZ intends to conduct its own audits of existing and new suppliers to ensure that they are adhering to the Company's code of conduct for suppliers. The objective in 2021 is to establish processes to integrate the results of these assessments into the supplier management system. See also 'Non-financial report' p. 86 and p. 88.

EMPLOYEES

Overview of the DEUTZ Group's workforce[1]

Headcount

	Dec. 31, 2020	Dec. 31, 2019
DEUTZ Group	**4,586**	**4,906**
In Germany	3,302	3,674
Outside Germany	1,284	1,232
Thereof		
Non-salaried employees	2,455	2,830
Salaried employees	2,022	1,977
Trainees	109	99
Thereof		
DEUTZ Compact Engines	3,747	3,953
DEUTZ Customized Solutions	622	761
Other[2]	217	192

[1] Full time equivalents; excluding temporary workers.
[2] Including Torqeedo and Futavis.

Impact of the coronavirus crisis on staffing levels In 2020, to take account of the lower capacity utilization resulting from the economic impact of the coronavirus crisis, DEUTZ decided, wherever possible, to discontinue the use of all temporary workers in the production and assembly operations and only to continue fixed-term contracts in the departments where there was evidence of need. This was in addition to a freeze on all recruitment. At the end of March 2020, DEUTZ also applied for Company-wide short-time working at all German sites.[1] This was approved for Cologne, Herschbach, and Ulm until December 2020. Decisions were made monthly on the precise scope of the short-time working in the individual departments, based on the order situation at the time.

Headcount DEUTZ employed 4,586 people[2] worldwide as at December 31, 2020. Whereas the increase in the number of consolidated entities added 77 employees to the total, the impact of the coronavirus crisis and the resulting sharp decline in the production volume caused the number of people employed by the Group to fall by a total of 320 compared with the end of 2019.

As at December 31, 2020, a total of 171 employees had taken the voluntary redundancy program that was launched on September 1, 2020, and 20 of them had left the Company before December 31, 2020. See also 'Transform for Growth', p. 25.

At around 72 percent, the bulk of the Group's workforce is based in Germany. Of the 3,302 employees in Germany, 2,509 work at the Company's headquarters in Cologne.

The number of temporary workers fell from 227 to 70 during the course of the year, mainly because of the aforementioned reduction. As a result, these employees made up less than 2 percent of the Group's workforce as at December 31, 2020.

[1] See the ad hoc disclosure dated March 25, 2020.
[2] Including trainees, excluding temporary workers.

MACROECONOMIC AND INDUSTRY-SPECIFIC ENVIRONMENT

ECONOMIC ENVIRONMENT

Global growth in negative territory due to coronavirus pandemic – bigger slump than during the financial crisis The global economy weakened significantly in 2020. According to the latest estimates of the International Monetary Fund (IMF),[1] world output was down by 3.5 percent, which is worse even than the 0.5 percent contraction experienced in 2009 due to the financial crisis.[2] This was triggered by the outbreak of the coronavirus pandemic in the first quarter of 2020. As a result of various regional lockdowns over the course of the year, and in spite of various stimulus measures on the part of the individual governments and national economies, global trade slumped by 9.6 percent, after having risen by 1.0 percent in 2019.

GDP growth[1]

YoY change (%)

	2020	2019
Global	–3.5	2.9
Industrialized countries	–4.9	1.7
Eurozone	–7.2	1.2
Germany	–5.4	0.5
USA	–3.4	2.3
Emerging markets	–2.4	3.7
China	2.3	6.1

[1] IMF, 'World Economic Outlook Update', January 2021.

The particularly pronounced contraction of 7.2 percent in the eurozone was partly attributable to Brexit. GDP in the UK was down by 10 percent compared with 2019.

Whereas GDP in the industrialized countries shrunk by a total of 4.9 percent, the contraction in the emerging markets was comparatively positive at only 2.4 percent. And China, which is a key emerging market for DEUTZ, was the only major national economy to see its GDP increase in 2020. This was because of the early emergence of coronavirus in January and the rapid and very restrictive measures taken to contain the pandemic.

INDUSTRY-SPECIFIC ENVIRONMENT

Based on currently available market data, the majority of the individual markets relevant to DEUTZ contracted in 2020. According to the Mechanical Engineering Industry Association (VDMA), the end of the sustained upturn in the construction equipment sector was already becoming apparent in late 2019, with a growing reluctance to invest that continued in early 2020 and was significantly accelerated by the outbreak of the coronavirus pandemic.[3]

While unit sales in the construction equipment sector in North America and Europe decreased dramatically year-on-year in 2020 as a result of the economic uncertainty and lack of investment both in housebuilding and in infrastructure projects,[3] the Chinese market was quickly able to make up for the loss of sales at the start of the year and return to the high pre-shutdown levels.[4]

Demand for material handling applications followed the trend in the construction industry. Unit sales of forklift trucks fell sharply in North America and Europe due to the weak economy.[5] In China, by contrast, the decreases experienced in the first quarter of 2020 were outweighed by strong growth later in the year, so that unit sales for the year as a whole showed a substantial year-on-year increase.[4] In the rest of Asia, particularly in Korea and Japan, demand was similar to that in Europe and North America. For lifting platforms and telehandlers, the difficult economic situation was exacerbated by a sharp decrease in fleet investment by the equipment leasing companies – up to 60 percent in some cases – resulting in a substantial fall in unit sales.

The market for agricultural machinery was adversely affected mainly by the coronavirus crisis in Europe and by structural trends in China. In North America, however, the market grew, not least because demand for tractors increased as a result of agricultural prices that rose significantly over the course of the year.[6]

[1] IMF, 'World Economic Outlook Update', January 2021.
[2] IMF, 'World Economic Outlook', April 2011
[3] VDMA, CE Snapshot, February 2021
[4] CCMA, CE Sales Data, February 2021
[5] FEM, World Industrial Truck Statistics, November 2020, February 2021.
[6] VDMA/Agrievolution, Business & Market Development for Agri Machinery World, February 2021

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

The business performance of the DEUTZ Group in 2020 was exceptionally badly affected by the outbreak of the coronavirus pandemic. The impact of the pandemic on global economic activity in what was an already challenging market led to a collapse in demand and made customers in various industries much less willing to invest. In April 2020, after many customers had already shut down their production and because preventive measures to ensure physical distancing in assembly meant that efficient production was no longer possible, DEUTZ too had to temporarily halt production.[1] See also 'Production and logistics', p. 30. Furthermore, the DEUTZ engine business was hit by customers continuing to sell the inventories of engines they had built up before new emissions standards came into force – a phenomenon that had already led to a low level of orders on hand at the end of 2019.

Signs of a gradual recovery did begin to emerge in the second half of 2020, but the impact of the coronavirus pandemic over the course of the year as a whole resulted, overall, in a sharp year-on-year decline in sales and thus also in the Company's earnings performance. The sales figures are presented below.

NEW ORDERS

DEUTZ Group: New orders

€ million

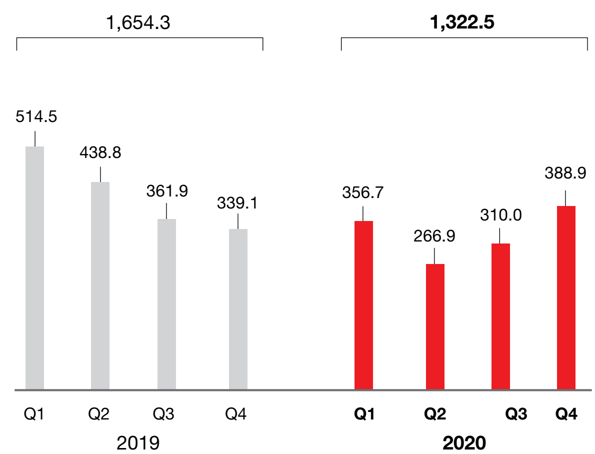
In 2020, new orders received by DEUTZ fell by 20.1 percent year on year to €1,322.5 million. New orders were down significantly in all the main application segments, which recorded double-digit rates of decline compared with 2019, because of the collapse in demand resulting from the coronavirus crisis and the reluctance of customers to invest. Orders increased only in the Miscellaneous application segment (up 11.1 percent) and in the service business (up 2.1 percent). Parts sales and the expansion of our on-site customer service business contributed to the rise in service orders. The business of DEUTZ Belgium and DEUTZ Netherlands, which were acquired at the end of 2019, performed particularly well. Growth in the Miscellaneous application segment was mainly attributable to orders for rail vehicle drive systems.

[1] See the ad hoc disclosure dated March 25, 2020.

In the regional breakdown, there was a year-on-year decline in orders in all territories with the exception of China, a key strategic sales market for DEUTZ. The deterioration in the volume of orders in the Americas was particularly pronounced.

DEUTZ Group: New orders by quarter

€ million



The volume of orders for the final quarter of 2020 was up significantly (25.5 percent) on the third quarter of the year. All application segments contributed to this improvement, with the exception of Miscellaneous.

As at December 31, 2020, orders on hand stood at €269.0 million (December 31, 2019: €253.3 million), which indicates a gradual recovery.

UNIT SALES

DEUTZ Group: Unit sales

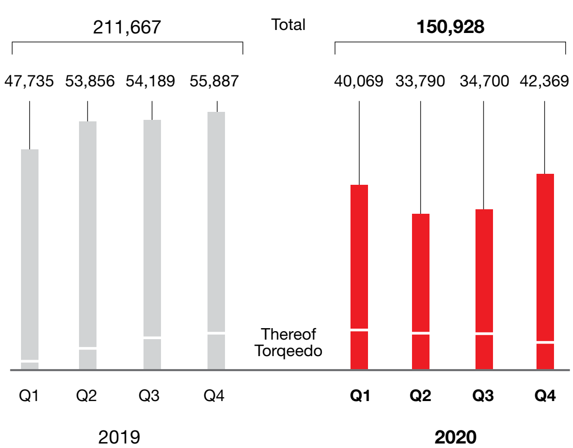
Units

The total of 150,928 engines sold by the DEUTZ Group in 2020 equated to a sharp year-on-year decline of 28.7 percent. Miscellaneous was the only application segment to record a substantial improvement in the volume of unit sales. This sharp increase by more than one third was due to increased unit sales of electric boat drives at our subsidiary Torqeedo, whose sales of electric motors rose by a significant 42.7 percent to 29,894 in the year under review.

The breakdown by region presented a mixed picture. Whereas unit sales in the Americas and the **EMEA** region, DEUTZ's biggest sales market, were down on the prior-year level by 40.8 percent and 34.2 percent respectively, they were up by 6.4 percent in the Asia-Pacific region owing to the increased unit sales at Torqeedo.

DEUTZ Group: Unit sales by quarter

units



In the fourth quarter of 2020, unit sales across the Group were up significantly (22.1 percent) compared with the third quarter of the year, with all regions and all application segments except Miscellaneous recording double-digit increases. For seasonal reasons, Torqeedo's sales of electric boat drives fell to 5,837 in this quarter (Q3 2020: 7,813 electric boat drives sold).

REVENUE

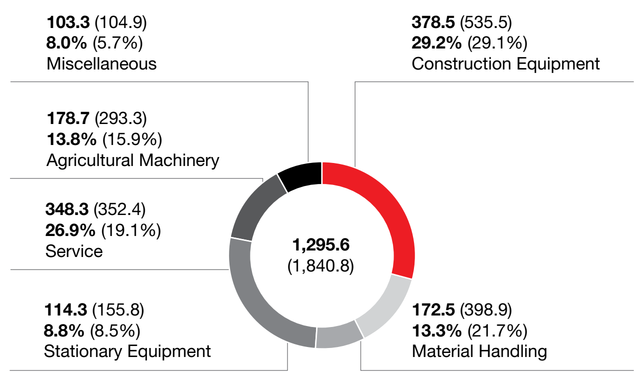
DEUTZ Group: Revenue

€ million

As a result of the decline in unit sales, consolidated revenue fell by 29.6 percent to €1,295.6 million in 2020, with the Construction Equipment, Material Handling, Agricultural Machinery, and Stationary Equipment application segments all recording sharp decreases. However, revenue in the Miscellaneous application segment was down year on year only by 2.3 percent due to the growth in revenue from engines for rail vehicles and electric motors for marine applications. In our service portfolio, revenue from on-site customer service business rose sharply compared with 2019 but did not quite make up for the decrease in revenue from other areas, such as the dealer business in the Americas.

DEUTZ Group: Revenue and proportion of revenue by application segment

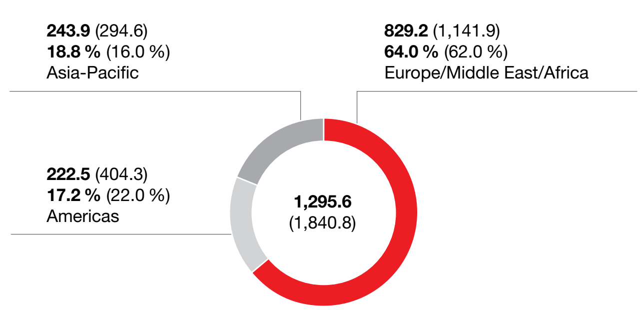
€ million (2019 figures)



In our sales regions, total revenue went down significantly. At individual country level, however, China – the most important market for our growth strategy – generated a year-on-year increase in revenue.

DEUTZ Group: Revenue and proportion of revenue by region

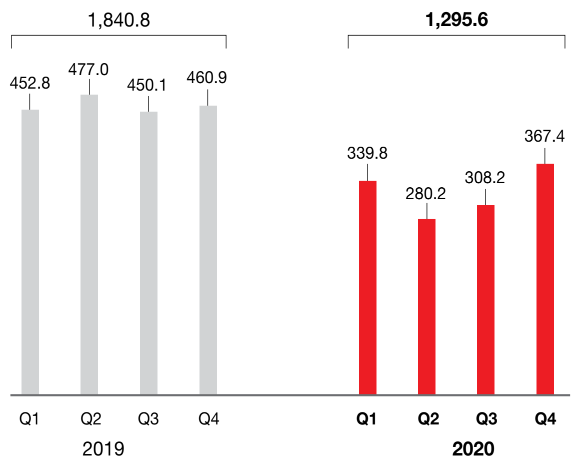
€ million (2019 figures)



In the fourth quarter of 2020, DEUTZ registered a 19.2 percent rise in revenue compared with the previous quarter, thereby confirming its outlook published at the start of November 2020 in which it had assumed that business performance in the fourth quarter of 2020 would continue to be adversely affected by the coronavirus crisis, although to a lesser extent than in the third quarter. All application segments – with the exception of Miscellaneous – and all regions contributed to this improvement. The EMEA region, which is currently DEUTZ's largest sales market, saw the strongest growth.

DEUTZ Group: Revenue by quarter

€ million



EARNINGS

Overview of the DEUTZ Group's results of operations

€ million

	1–12/2020	1–12/2019	Change (%)
Revenue	**1,295.6**	**1,840.8**	**–29.6**
Cost of sales	–1,105.9	–1,510.5	–26.8
Research and development costs	–97.7	–95.3	2.5
Selling and administrative expenses	–146.5	–151.8	–3.5
Other operating income	15.0	29.0	–48.3
Other operating expenses	–68.3	–24.3	>100
Write-down of financial assets	–1.3	–1.7	–23.5
Profit/loss on equity-accounted investments	1.4	0.7	100.0
Other net investment income	1.1	1.2	–8.3
EBIT	**–106.6**	**88.1**	**<–100**
thereof exceptional items	–31.9	9.3	<–100
Operating profit/loss (EBIT before exceptional items)	**–74.7**	**78.8**	**<–100**
Interest income	0.7	1.0	–30.0
Interest expense	–4.3	–2.9	48.3
Other finance costs	–0.4	–11.1	96.4
Financial income, net	**–4.0**	**–13.0**	**69.2**
Income taxes	3.0	–22.8	>100
Net income	**–107.6**	**52.3**	**<–100**

Operating profit The economic impact of the coronavirus crisis on the business activities of the DEUTZ Group and its customers meant that DEUTZ reported an operating loss (**EBIT before exceptional items**) of €74.7 million in 2020 (2019: operating profit of €78.8 million). This very significant deterioration compared with the previous year was attributable in large part to the fall in revenue and the resulting diseconomies of scale. There was also a heavy drag on operating profit from payments of around €8.8 million made under continuation agreements with suppliers that are going through insolvency proceedings and, in particular, demand-related impairment losses of around €17.2 million recognized on capitalized development projects and sales licenses. However, there were some positive influences on earnings performance in addition to the general cost reductions and the use of short-time working: The Board of Management waived its one-year variable remuneration for 2020 and senior managers waived a substantial part of their variable remuneration for 2020. The EBIT margin before exceptional items fell from 4.3 percent to minus 5.8 percent in the reporting year. As a result of the operating loss, our internal key performance indicator return on capital employed (ROCE before exceptional items)[1] declined from 9.0 percent in 2019 to minus 8.1 percent in 2020.

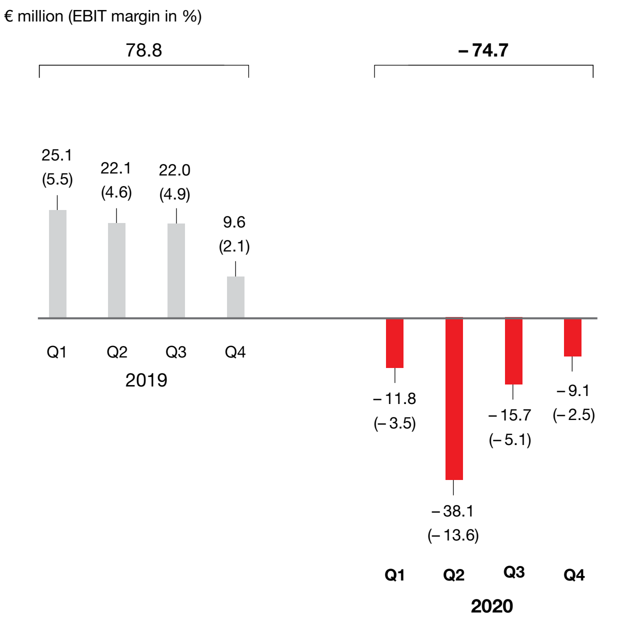
However, the quarter-by-quarter breakdown reveals a marked recovery at the end of the year under review. Whereas significant losses were recorded in the second quarter and, to a lesser extent, the third quarter, the operating loss for the fourth quarter of 2020 amounted to €9.1 million, which included impairment losses of €11.9 million recognized on capitalized development expenditure and sales licenses.

At the start of the year, DEUTZ launched a Company-wide efficiency program, 'Transform for Growth', in order to secure its earnings performance in a challenging market environment. In 2020, restructuring costs totaling €31.9 million were recognized as an exceptional item after some of the individual measures were set out in greater detail. Having predicted restructuring costs of €37.8 million and recognized appropriate provisions in the third quarter, we now anticipate that our costs for achieving our restructuring targets will be lower overall and we have reduced the provisions accordingly. In 2019, we had recorded a positive exceptional item of €9.3 million resulting from the sale of part of the land at our former Cologne-Deutz site. After taking exceptional items into account, EBIT for the year under review stood at minus €106.6 million (2019: €88.1 million).

[1] Return on capital employed (ROCE): ratio of EBIT to average capital employed. Capital employed: total assets less cash and cash equivalents, trade payables, and other current and non-current liabilities, based on average values from two balance sheet dates.

DEUTZ Group: Operating profit and EBIT margin (before exceptional items)

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



Cost of sales The cost of sales fell to €1,105.9 million in 2020 as a result of the sharp contraction in the volume of business. The year-on-year decrease of 26.8 percent was mainly attributable to the reduction in the cost of materials and in staff costs. However, the improvement was partly negated by negative effects of €8.8 million in connection with the opening of insolvency proceedings at some of our suppliers. The gross margin[1] dropped from 17.9 percent in 2019 to 14.5 percent in the reporting year.

Research and development costs In the year under review, research and development costs amounted to €97.7 million. They largely comprised staff costs, the cost of materials, and amortization on completed development projects, from which investment grants received and capitalized development expenditure were deducted. The year-on-year increase of €2.4 million is mainly attributable to impairment losses on capitalized development expenditure totaling €10.8 million. The impairment losses related to four development projects and were the result of changes in market forecasts and cost estimates.

Other operating income Other operating income totaled €15.0 million in the reporting year. The year-on-year decrease of €14.0 million was primarily attributable to the recognition in 2019 of proceeds of €9.3 million from the disposal of part of the land at our former Cologne-Deutz site. Another factor was a reduction in the onward charging of costs to logistics partners.

Other operating expenses Other operating expenses amounted to €68.3 million in 2020. The substantial year-on-year increase of €44.0 million is mainly attributable to restructuring costs totaling €31.9 million in connection with the ‘Transform for Growth’ efficiency program. The restructuring costs, which have been recognized as an exceptional item, predominantly consist of costs for severance payments and early retirement arrangements. In addition, higher provisions were recognized for onerous contracts in relation to orders on hand and there was an increase in foreign currency losses arising on the translation of foreign currency positions.

Share of profit (loss) of equity-accounted investments Thanks to the profit attributable to our Chinese joint venture Hunan DEUTZ Power Co., Ltd., the share of profit (loss) of equity-accounted investments improved by €0.7 million to €1.4 million. The joint venture was included in the consolidated financial statements of DEUTZ AG for the first time as at December 31, 2019.

Financial income, net Net finance costs improved by €9.0 million to €4.0 million. This was due to the write-down that had been recognized in 2019 on a loan granted to a supplier. However, there was also higher interest expense as a result of the pandemic-related increase in net debt and the commitment fee for an additional credit line.

Income taxes Tax income totaling €3.0 million was recognized in 2020. As a result of the decline in earnings, the current tax expense fell by €11.5 million to €1.9 million. Deferred tax income of €4.9 million was also recognized.

Earnings per share A net loss of €107.6 million was reported in 2020 (2019: net income of €52.3 million). Earnings per share stood at minus €0.89 (2019: €0.43). Adjusted for exceptional items, net income deteriorated to a net loss of €75.7 million. Adjusted earnings per share thus declined from €0.37 in the prior year to minus €0.63 in 2020.

[1] Gross margin: ratio of revenue less cost of sales to revenue (excluding amortization relating to capitalized development expenditure).

BUSINESS PERFORMANCE IN THE SEGMENTS

DEUTZ Group: Segments

€ million

	2020	2019
New orders		
DEUTZ Compact Engines	954.3	1,268.4
DEUTZ Customized Solutions	324.5	341.7
Other	46.4	47.8
Consolidation	–2.7	–3.6
Total	**1,322.5**	**1,654.3**
Unit sales (units)		
DEUTZ Compact Engines	102,054	164,677
DEUTZ Customized Solutions	18,980	26,048
Other	29,894	20,942
Consolidation	0	0
Total	**150,928**	**211,667**
Revenue		
DEUTZ Compact Engines	943.8	1,446.4
DEUTZ Customized Solutions	310.1	362.5
Other	44.4	35.5
Consolidation	–2.7	–3.6
Total	**1,295.6**	**1,840.8**
EBIT before exceptional items		
DEUTZ Compact Engines	–80.5	57.7
DEUTZ Customized Solutions	18.7	42.8
Other	–12.9	–21.7
Consolidation	0.0	0.0
Total	**–74.7**	**78.8**

The background to the significant deterioration in the results for 2020, which is described in the chapter ‘Business performance in the DEUTZ Group’ on p. 36, also applies in the case of the following key figures for the segments.

DEUTZ COMPACT ENGINES (DCE)

DEUTZ Compact Engines

	2020	2019	Change (%)
New orders (€ million)	954.3	1,268.4	–24.8
Unit sales (units)	102,054	164,677	–38.0
Revenue (€ million)	943.8	1,446.4	–34.7
EBIT (€ million)[1]	–80.5	57.7	<–100
EBIT margin (%)[1]	–8.5	4.0	–

[1] before exceptional items.

The DEUTZ Compact Engines segment received orders amounting to €954.3 million in 2020, a year-on-year decrease of 24.8 percent. Whereas demand in all application segments fell by double-digit percentage amounts, the service business achieved a significant 7.8 percent increase in new orders, which was mainly due to the sharp rise in demand for our on-site customer service.

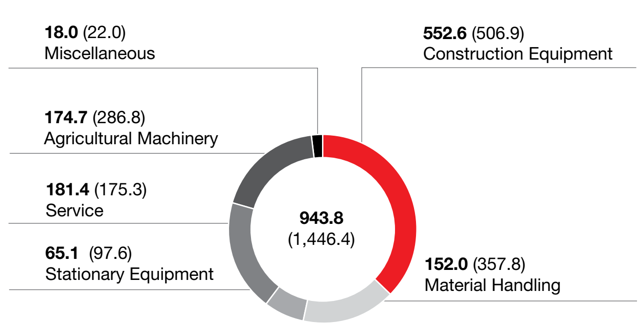
Orders on hand were still at a low level despite rising by 3.9 percent year on year to reach €183.1 million as at December 31, 2020.

Unit sales in the DCE segment decreased by 38.0 percent to 102,054 engines in the reporting period, with all regions and the main application segments recording a significant decline. The Miscellaneous application segment, whose unit sales were down by 1.0 percent, fell only just short of the prior-year level.

The DCE segment generated revenue of €943.8 million, which was 34.7 percent less than in the prior year. Revenue fell sharply in all regions, with the most pronounced decline in the Americas.

DEUTZ Compact Engines: Revenue by application segment

€ million (2019 figures)



In the breakdown by application segment, only the service business saw its revenue increase compared with the prior year (up 3.5 percent), which was mainly due to the successful expansion of the on-site customer service business.

There was a significant recovery in the final quarter of 2020 compared with the third quarter: New orders rose by 33.3 percent to €293.9 million, unit sales increased by 37.9 percent to 31,228, and revenue was up 28.1 percent to €275.2 million.

Operating profit for the segment Due to the collapse in demand driven largely by the coronavirus crisis, EBIT before exceptional items in the DCE segment stood at minus €80.5 million, a significant deterioration of €138.2 million compared with 2019. As well as a sharp fall in revenue, the segment's earnings performance was weighed down by payments to suppliers going through insolvency proceedings (to enable them to continue supplying DEUTZ) and by demand-related impairment losses on capitalized development projects. The EBIT margin before exceptional items stood at minus 8.5 percent in 2020, compared with 4.0 percent in 2019.

In the final quarter of 2020, due to the rise in the volume of business, EBIT before exceptional items improved by €4.9 million compared with the third quarter to reach minus €12.9 million. The EBIT margin before exceptional items improved from minus 8.3 percent to minus 4.7 percent over the same period.

DEUTZ CUSTOMIZED SOLUTIONS (DCS)

DEUTZ Customized Solutions

	2020	2019	Change (%)
New orders (€ million)	324.5	341.7	–5.0
Unit sales (units)	18,980	26,048	–27.1
Revenue (€ million)	310.1	362.5	–14.5
EBIT (€ million)[1]	18.7	42.8	–56.3
EBIT margin (%)[1]	6.0	11.8	–

[1] before exceptional items.

New orders in the DCS segment fell by 5.0 percent year on year to €324.5 million. The individual application segments presented a mixed picture: While the percentage declines in Construction Equipment and the service business were in the low single digits, demand in Material Handling slumped significantly. By contrast, orders in the Miscellaneous application segment rose by around 46 percent, which was mainly attributable to the business with engines for rail vehicles.

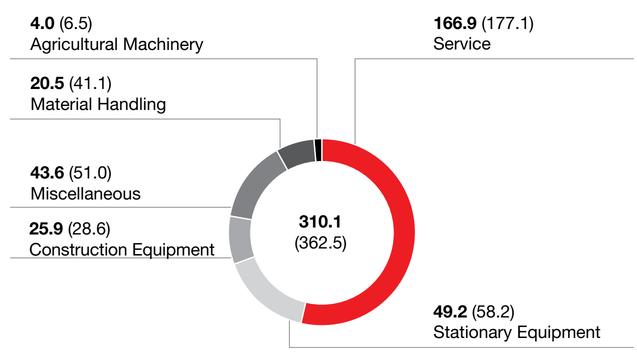
Orders on hand as at December 31, 2020 stood at €75.2 million, a significant increase of 20.9 percent compared with the same date a year earlier.

The DCS segment's unit sales totaled 18,980 engines in the reporting period, which was 27.1 percent fewer than in 2019. All regions and application segments recorded double-digit decreases. Only Construction Equipment, whose unit sales fell by 2.6 percent, came close to the prior-year level.

In 2020, segment revenue dropped by 14.5 percent to €310.1 million, and in this segment too it was the Americas region that reported the biggest declines. Revenue fell across all application segments.

DEUTZ Customized Solutions: Revenue by application segment

€ million (2019 figures)



There was a significant recovery in the final quarter of 2020: Compared with the third quarter of the year, new orders rose by 9.6 percent to €83.2 million, unit sales increased by 25.3 percent to 5,304 and revenue was up 4.3 percent to €84.3 million.

Operating profit for the segment As a result of the decline in revenue, EBIT before exceptional items for the segment decreased by a significant €24.1 million year on year to €18.7 million. The segment's earning performance was weighed down by impairment losses on sales licenses that were recognized due to the expected fall in demand for the affected engine series. The EBIT margin before exceptional items stood at 6.0 percent, compared with 11.8 percent in the prior-year period.

In the fourth quarter of 2020, the higher volume of business pushed EBIT before exceptional items up by a significant €3.5 million compared with the previous quarter to €7.8 million. The corresponding EBIT margin also rose sharply, reaching 9.3 percent in the final quarter of the 2020 compared with 5.3 percent in the third quarter.

OTHER

Other

	2020	2019	Change (%)
New orders (€ million)	46.4	47.8	–2.9
Unit sales (units)	29,894	20,942	42.7
Revenue (€ million)	44.4	35.5	25.1
EBIT (€ million)[1]	–12.9	–21.7	40.6
EBIT margin (%)[1]	–29.1	–61.1	–

[1] before exceptional items.

The Other segment, which includes the business with electric motors for boats operated by DEUTZ subsidiary Torqeedo and the battery specialist Futavis, presented a mixed picture in the reporting year: New orders in the segment reached €46.4 million in 2020, a year-on-year decline of 2.9 percent that was due to coronavirus. The segment's unit sales increased by a significant 42.7 percent year on year to 29,894 electric motors sold, mainly due to the ramp-up at Torqeedo in the Americas and Asia-Pacific regions. Revenue rose by 25.1 percent over the same period to reach €44.4 million, with all regions contributing double-digit percentage increases. Futavis's revenue contribution came to around €1.7 million in 2020.

As had been expected for seasonal reasons, the fourth quarter of 2020 saw a significant decline compared with the previous quarter: New orders fell by 14.5 percent to €12.4 million, while unit sales dropped by 25.3 percent to 5,837 electric motors sold, and revenue slipped by 36.6 percent to €8.5 million.

Operating profit for the segment EBIT before exceptional items in the Other segment improved by €8.8 million year on year to reach minus €12.9 million. One reason for this was the improvement at Torqeedo, which, due to a higher volume of business and the implementation of a performance program, reported an operating loss of €11.7 million in 2020 compared with an operating loss of €17.3 million in the prior year. Another factor in this positive result was the deconsolidation of the joint venture DEUTZ AGCO Motores S.A., Haedo, Argentina, in the first half of 2019. As part of the deconsolidation, which was carried out for reasons of materiality, cumulative negative exchange differences were reclassified from equity to the income statement, which had a significant adverse impact on the segment's earnings in the prior-year period.

FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

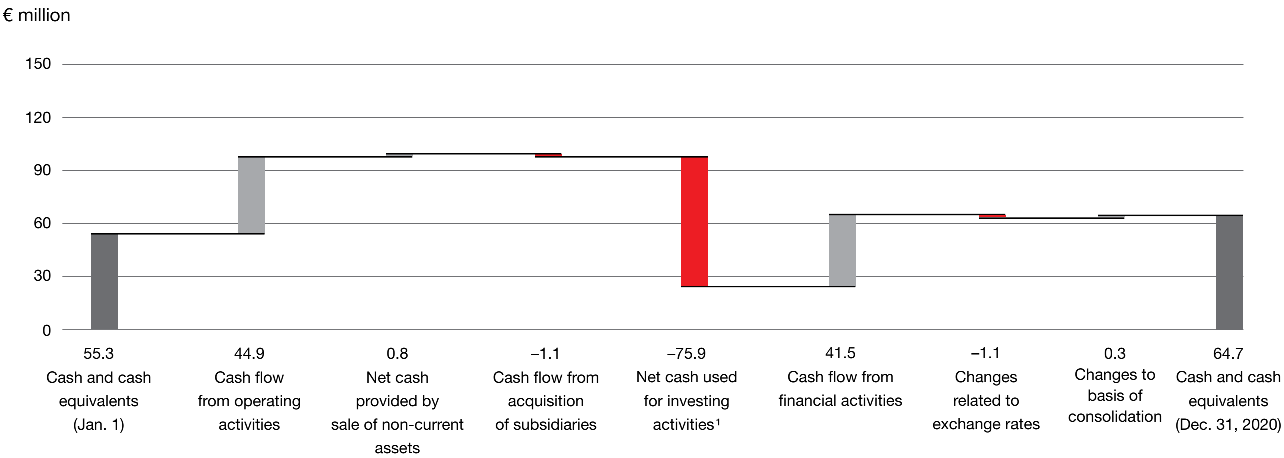
Centralized financial management The purpose of financial management is to ensure the solvency of the DEUTZ Group at all times by obtaining the necessary funds, to hedge and contain interest-rate risk, currency risk, and commodities risk throughout the Group, and to optimize the cost of capital. Responsibility for groupwide financial management, including managing funds within the Group, lies with DEUTZ AG as the parent company of the Group.

FUNDING

Sufficient liquidity ensured In order to ensure sufficient liquidity, DEUTZ has at its disposal two syndicated working capital facilities that are provided by a consortium of banks and together total €310 million. One credit line of €160 million runs 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. As part of the contractual agreements, we have undertaken to comply with certain financial covenants. However, these do not place any restrictions on our ability to pursue growth projects. If, however, there is a dramatic deterioration in the general economic situation – for example, because of the fallout from the coronavirus pandemic – there is a risk of the covenants being breached in the short term. Should such a risk materialize, we would approach our funding partners in advance in order to negotiate the necessary **waiver** with them and enable further draw-downs from the syndicated loan. See also 'Financial risk management', note 26, p. 143.

We also continue to have short-term credit lines and make use of loans with subsidized interest rates.

DEUTZ Group: Change in cash and cash equivalents



[1] Capital expenditure on intangible assets, investments, property, plant and equipment.

The aforementioned funding instruments ensure that DEUTZ has sufficient funds for its operations and for ongoing and planned projects in the context of its growth strategy.

Receivables management optimized by means of factoring The sale of receivables, known as factoring, is an important way of optimizing receivables management. It enables us to not only ensure sufficient liquidity but also improve our **working capital**, which tends to be affected by large amounts of capital being tied up in the preliminary financing of engine production and in the payment terms that we have granted.

The volume of sales of receivables totaled €107 million as at the balance sheet date, which was below the level a year earlier (December 31, 2019: €136 million) due to the decline in the volume of business.

CASH FLOW

Overview of the DEUTZ Group's financial position

€ million

	2020	2019	Change (%)
Cash flow from operating activities	44.9	115.6	–61.2
Cash flow from investing activities	–76.2	–149.4	49.0
Cash flow from financing activities	41.5	–43.9	>100
Change in cash and cash equivalents	**10.2**	**–77.7**	**>100**
Free cash flow[1] from continuing operations	**–35.8**	**–36.6**	**2.2**
Cash and cash equivalents at Dec. 31	64.7	55.3	17.0
Current and non-current interest-bearing financial debt at Dec. 31	148.5	70.5	>100
thereof lease liabilities	58.0	41.9	38.4
Net financial position[2] at Dec. 31	–83.8	–15.2	<–100

[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 significant decline in operating profit and the repayment of current liabilities to factoring companies led to a much lower level of cash flow from operating activities than in the prior-year period. The measures taken at an early stage to safeguard liquidity, such as careful monitoring of working capital, meant that the €55.1 million decrease in working capital with an impact on cash flow was able to partly offset this significant decline in earnings.

Net cash used for investing activities stood at €76.2 million in 2020. This year-on-year decline of €73.2 million was due to reduced capital expenditure on property, plant and equipment and intangible assets and, in particular, to much lower expenditure on acquisitions. Whereas the payments for the acquisition of the shares in DEUTZ Austria GmbH and in the service companies PRO MOTOR Servis CZ s.r.o. and Motor Center Austria GmbH in 2020 amounted to €1.1 million, the equivalent amount in the prior year for the purchase of shares in JV Hunan DEUTZ Power and the acquisitions of Futavis and DPS Power Group came to €57.1 million.

The main factors affecting cash flow from financing activities were the drawdown of short-term lines of credit and the taking out of medium-term loans totaling €23 million. To secure its liquidity, DEUTZ has also had a further working capital facility of €150.0 million at its disposal since May 2020, although it has not used it so far. Cash flow from financing activities included payments of interest and principal in connection with leases amounting to €1.1 million and €14.6 million respectively (2019: €1.0 million and €13.5 million respectively).

Through forward-looking management of capital expenditure, we succeeded in compensating for the decrease in cash flow from operating activities due to coronavirus, and this resulted in free cash flow improving slightly year on year to -€35.8 million (2019: -€36.6 million). In the fourth quarter of 2020, free cash flow rose sharply to €43.0 million because of the higher volume of business and the optimization of working capital.

These changes in cash flow during the reporting period caused cash and cash equivalents to increase slightly to €64.7 million. The net financial position, however, deteriorated to -€83.8 million due to coronavirus. As at December 31, 2020, the net financial position included lease liabilities totaling €58.0 million (December 31, 2019: €41.9 million).

CAPITAL EXPENDITURE

Capital expenditure (after deducting investment grants)

€ million

	2020	2019	Change
Property, plant and equipment	80.4	78.6	1.8
of which right-of-use assets for leases under IFRS 16	32.4	10.4	22.0
Property, plant and equipment (excluding right-of-use assets under IFRS 16)	48.0	68.2	–20.2
Intangible assets	23.9	29.6	–5.7
	104.3	**108.2**	**–3.9**

Total capital expenditure on property, plant and equipment and on intangible assets after deducting investment grants was only slightly below the prior-year level in 2020.

Additions to property, plant and equipment mainly related to the set-up of the new assembly line in Cologne-Porz for engine series with a capacity of less than 4 liters, which was brought on stream in the third quarter of 2020, and to replacement investment in tools, equipment, and machinery. DEUTZ also invested in new and more efficient testing equipment.

The much higher level of capital expenditure on right-of-use assets was primarily attributable to the alliance under which Chinese manufacturer BEINEI is contracted to make DEUTZ diesel engines for the local market and to extensions of property leases.

Capital expenditure on intangible assets was mainly in connection with the development of the new 5.2 engine series and the adaptation of our engines to meet **EU Stage V**.

The bulk of the total capital expenditure after deducting investment grants – €87.0 million – was invested in the DEUTZ Compact Engines segment (2019: €93.8 million). Capital expenditure in DEUTZ Customized Solutions stood at €13.8 million (2019: €12.3 million). In the Other segment, capital expenditure amounted to €3.6 million (2019: €2.1 million). As in 2019, this related to capital expenditure by the Torqeedo companies.

In 2020, in addition to its capital expenditure on property, plant and equipment and intangible assets, DEUTZ acquired the companies DEUTZ Austria, Motorcenter Austria, and Pro Motor Servis CZ, which sell and service diesel engines in Austria, the Czech Republic, Hungary, Slovakia, and Slovenia. Capital expenditure on these acquisitions amounted to €1.6 million. The companies are fully included in the consolidated financial statements of DEUTZ AG. For details of the individual assets and liabilities acquired in connection with these acquisitions, please refer to the notes to the consolidated financial statements. See 'Notes to the consolidated accounts', p.108.

NET ASSETS

DEUTZ Group: overview of net assets

€ million

	Dec. 31, 2020	Dec. 31, 2019	Change (%)
Non-current assets	687.8	688.1	0.0
thereof right-of-use assets in connection with leases	57.3	41.4	38.4
Current assets	492.7	613.1	–19.6
Total assets	**1,180.5**	**1,301.2**	**–9.3**
Equity	535.2	652.4	–18.0
Non-current liabilities	250.8	225.2	11.4
thereof lease liabilities	44.0	28.8	52.8
Current liabilities	394.5	423.6	–6.9
thereof lease liabilities	14.0	13.1	6.9
Total equity and liabilities	**1,180.5**	**1,301.2**	**–9.3**
Working capital[1] (€ million)	235.0	293.2	–19.8
Working capital ratio[2] (Dec. 31, %)	18.1	15.9	–
Working capital ratio[3] (average, %)	21.8	17.4	–
Equity ratio[4] (%)	45.3	50.1	–

[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.

Assets Non-current assets stood at €687.8 million as at December 31, 2020 and were thus at the same level as at the end of 2019. Property, plant, and equipment increased by €14.5 million due, in particular, to additions to right-of-use assets in connection with leases. By contrast, intangible assets fell by €19.0 million, mainly because of impairment losses on capitalized development projects and sales licenses. The rise in right-of-use assets was primarily attributable to the alliance under which Chinese manufacturer BEINEI is contracted to make DEUTZ diesel engines for the local market and to extensions of leases.

The contraction of current assets was attributable to the decrease in inventories and trade receivables and, in particular, the contractually agreed payment of the purchase consideration into Hunan DEUTZ Power Co., Ltd., the joint venture with SANY. This payment was transferred from the escrow account that had been opened for this purpose in 2019 and that is categorized as other current assets.

Working Capital The main factor affecting the change in working capital during the reporting period was the coronavirus crisis. Inventories, trade receivables, and trade payables fell significantly due to the related sharp decline in demand and the resulting adjustment to production and procurement activities. Working capital as at the end of 2020 was €58.2 million lower than at the end of 2019 thanks to the measures quickly introduced in order to manage it. However, the average working capital ratio went up from 17.4 percent to 21.8 percent owing to the significant reduction in revenue.

Equity As at December 31, 2020, equity had fallen to €535.2 million because of the net loss reported for the year. The equity ratio therefore decreased to 45.3 percent (December 31, 2019: 50.1 percent).

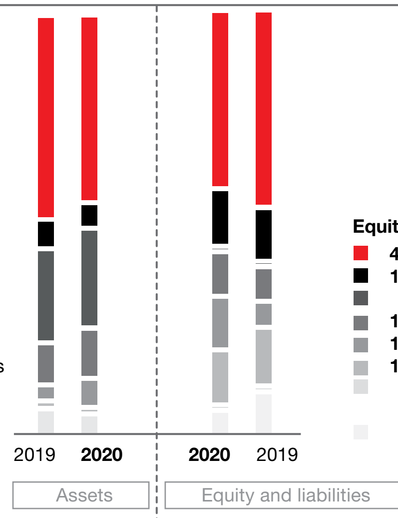
Liabilities The rise in non-current liabilities was largely the result of higher lease liabilities and of a low-interest loan taken out by our Spanish subsidiary. As was the case for the growth of the right-of-use assets mentioned above, the increase in lease liabilities was mainly due to the alliance under which Chinese manufacturer BEINEI is contracted to make DEUTZ diesel engines for the local market and to lease extensions. The decrease in current liabilities was primarily the result of the aforementioned payment of the purchase consideration into the joint venture Hunan DEUTZ Power Co., Ltd. and the decline in trade payables. Furthermore, provisions were recognized in 2020 for measures in connection with the 'Transform for Growth' global restructuring program, which mainly encompass severance payment expenses, early retirement arrangements, and other costs that are directly related to the restructuring. Of the total provisions of €27.2 million recognized as at December 31, 2020, €16.1 million was assigned to current liabilities and €11.1 million to non-current liabilities.

DEUTZ Group: Balance sheet structure

% (2019 figures)

Assets

52.0	(47.6)	Non-current assets
6.3	(5.3)	Deferred tax assets
23.2	(24.7)	Inventories
9.6	(11.7)	Trade receivables
2.8	(6.2)	Other receivables and assets
0.6	(0.3)	Receivables in respect of tax refunds
5.5	(4.2)	Cash and cash equivalents



Equity and liabilities

45.2	(50.1)	Equity
13.6	(12.6)	Pension provisions
0.1	(0.1)	Deferred tax liabilities
10.2	(7.7)	Other provisions
12.6	(5.4)	Financial liabilities
13.0	(13.9)	Trade payables
0.2	(0.2)	Liabilities arising from income taxes
5.1	(10.0)	Other liabilities

OVERALL ASSESSMENT FOR 2020

Original guidance for 2020[1]

	Actual 2019	Target 2020
Revenue (€ million)	1,804.8	Low double–digit percentage decline compared with prior year
EBIT margin before exceptional items (%)	4.3	Mid double–digit percentage decline compared with prior year
R&D expenditure (€ million)	95.8	€80 million to €90 million
Capital expenditure[2] (after deducting grants, € million)	86.5	€80 million to €90 million
Free cash flow[3] (€ million)	–36.6	Negative mid double–digit million euro amount
Average working capital ratio[4] (%)	17.4	20 percent to 21 percent
Equity ratio[5] (%)	50.1	Well above 40 percent

[1] Published in the 2019 annual report on March 18, 2020.
[2] Capital expenditure on property, plant and equipment (including right-of-use assets in connection with leases) and intangible assets.
[3] Cash flow from operating activities and from investing activities less interest expense.
[4] Average working capital at the four quarterly reporting dates divided by revenue for the previous twelve months.
[5] Equity divided by total equity and liabilities.

A fall in demand in key customer industries, primarily driven by economic conditions, had resulted in a low level of orders on hand at the end of 2019 and looked set to continue. At the start of the reporting year, DEUTZ had therefore already anticipated an overall decline in business performance in 2020 that would be exacerbated by customers continuing to sell the inventories of engines they had built up before new emissions standards came into force.[1]

On March 25, 2020, the dramatically escalating coronavirus crisis prompted DEUTZ to announce that large parts of production in Europe (Cologne, Ulm, Herschbach, Zafra) would close down on April 1, 2020, initially until April 17, 2020. This was partly because many customers had already shut down their production or announced plans to do so imminently and partly because the preventive measures introduced at that time to ensure physical distancing in assembly meant that efficient production was no longer possible. Against this backdrop and in light of the expected continuing impact of the coronavirus pandemic on the global economy and thus on its own business performance, DEUTZ anticipated that its business activities would be severely affected and retracted its original guidance for 2020.[2]

The duration and severity of the coronavirus pandemic remained very difficult to predict over the course of 2020, as did the economic fallout. Consequently, DEUTZ was still unable to provide updated or quantitative guidance as the year went on. Nevertheless, it forecast that its sales figures and operating profit (EBIT before exceptional items) would continue to be adversely affected by the coronavirus crisis in the third and fourth quarters of 2020, albeit in each case to a lesser extent than in the previous quarter.

DEUTZ Group: Business performance over the course of the year

	Q1/2020	**Q2/2020**	**Q3/2020**	**Q4/2020**
New orders (€ million)	356.7	266.9	310.0	388.9
Unit sales (units)	40,069	33,790	34,700	42,369
Revenue (€ million)	339.8	280.2	308.2	367.4
EBIT margin before exceptional items (%)	–3.5	–13.6	–5.1	–2.5

[1] See the ad hoc disclosure dated March 2, 2020.
[2] See the ad hoc disclosure dated March 25, 2020.

DEUTZ AG

The following remarks refer to the annual financial statements of DEUTZ AG. The annual financial statements of DEUTZ AG are prepared in accordance with the requirements of the German Commercial Code (HGB).

BASIC PRINCIPLES AND BUSINESS PERFORMANCE OF DEUTZ AG

DEUTZ AG is the parent company of the DEUTZ Group. In Germany and abroad, DEUTZ AG has a direct or indirect stake in 39 companies (2019: 36 companies). DEUTZ AG is also by far the largest production company of the DEUTZ Group and provides the head-office functions for the Group. See list of shareholdings, p. 164, for further information on DEUTZ AG's equity investments.

Because the business performance and financial situation of DEUTZ AG are essentially the same as for the DEUTZ Group, we make reference here to the 'Business performance in the DEUTZ Group' section of this combined management report. See 'Business performance in the DEUTZ Group', p. 36, for further information.

Because of the significance of DEUTZ AG within the Group, and its heavy interdependencies with other Group companies, the Group is managed at the level of DEUTZ AG. In addition to the key performance indicators used for management at Group level, the net income of DEUTZ AG, as the relevant variable in the payment of dividends, is also an element of the management system of the Company. The internal management system for the DEUTZ Group is described in this combined management report. See 'Internal management system', p. 26, for further information.

The DEUTZ Group's net income in accordance with IFRS is reconciled to DEUTZ AG's net income in accordance with the HGB:

RESULTS OF OPERATIONS

DEUTZ AG: Reconciliation

€ million

DEUTZ Group net income (IFRS)	**–107.6**
Consolidation of equity investments	2.9
Impairment losses on the carrying amount of investments	– 19.6
DEUTZ AG income (IFRS)	**–124.3**
Material differences due to different financial reporting standards	
Recognition of development expenditure	18.2
Measurement of provisions for pensions and other post-retirement benefits	–8.4
Recognition of deferred taxes	–3.3
Other differences relating to the financial reporting standards	0.2
DEUTZ AG net income (HGB)	**–117.6**

Overview of DEUTZ AG's results of operations

€ million

	2020	2019	Change
Revenue	**1,085.2**	**1,632.3**	**–547.1**
Cost of sales	–997.8	–1,394.1	396.3
Research and development costs	–72.3	–72.7	0.4
Selling and administrative expenses	–79.0	–83.3	4.3
Other operating income	31,6	35.6	–4.0
Other operating expenses	–67.3	–31.4	–35.9
Net investment income	4.6	4.4	0.2
Write-downs of investments	–19.6	0.0	–19.6
Operating profit (EBIT)	**–114.6**	**90.8**	**–205.4**
Interest expenses, net	–3.6	–2.5	–1.1
Income taxes	1.1	–21.7	22.8
Other taxes	–0.5	–0.8	0.3
Net income	**–117.6**	**65.8**	**–183.4**

Revenue DEUTZ AG generated revenue of €1,085.2 million in 2020, which was down by 33.5 percent on the previous year as a result of the global coronavirus pandemic. All application segments were affected by the economic fallout from the coronavirus crisis: The Material Handling application recorded the biggest decline (down 60.7 percent to €137.6 million), followed by Agricultural Machinery (down 39.4 percent to €176.6 million), Stationary Equipment (down 34.8 percent to €89.7 million), and Construction Equipment (down 31.6 percent to €356.3 million). At €257.1 million, revenue in the service business was only 3.5 percent below the prior-year level. In the regional breakdown, the most pronounced falls in revenue were recorded in the Americas (down 58.5 percent to €128.3 million) and in the EMEA region (down 29.8 percent to €748.0 million).

Earnings performance DEUTZ AG reported an operating loss (EBIT) of €114.6 million in 2020. This significant deterioration compared with the previous year was mainly attributable to the sharp contraction in the volume of business due to coronavirus and the resulting diseconomies of scale. There was also a heavy drag on operating profit from restructuring costs in connection with the 'Transform for Growth' efficiency program (€31.9 million), For further information, see 'Transform for Growth', p. 25 write-downs of equity investments (€19.6 million), impairment losses recognized on capitalized development projects and sales licenses (€13.3 million), and payments made under continuation agreements with suppliers that are going through insolvency proceedings (€8.8 million).

Cost of sales DEUTZ AG's cost of sales came to €997.8 million in 2020. The year-on-year decrease was mainly attributable to the reduction in the cost of materials and in staff costs. However, the improvement was partly negated by negative effects of €8.8 million in connection with the opening of insolvency proceedings at some of our suppliers. The gross margin[1] fell sharply from 14.6 percent to 8.1 percent.

Other operating income In 2020, other operating income fell by €4.0 million to €31.6 million. The year-on-year decrease was primarily attributable to the recognition in 2019 of proceeds of €9.3 million from the disposal of part of the land at our former Cologne-Deutz site. Another factor was a reduction in the onward charging of costs to logistics partners. The decrease was partly offset by the reversal of warranty provisions as a result of the lower volume of business.

Other operating expenses Other operating expenses rose by €35.9 million year on year to €67.3 million. This sharp increase was primarily due to the aforementioned restructuring costs in connection with the 'Transform for Growth' efficiency program.

Write-downs of investments Write-downs of investments mainly relate to the equity investment in Torqeedo GmbH. The efficiencies that we anticipated as a result of this acquisition are now expected to take longer to materialize due to the coronavirus pandemic, hence the need for the investment to be written down.

[1] Ratio of revenue less cost of sales to revenue (excluding amortization relating to development expenditure).

Income taxes Tax income totaling €1.1 million was recognized in 2020. As a result of the decline in earnings, the current tax expense fell by €7.0 million to €0.8 million. Deferred tax income of €1.9 million was also recognized, with additions to deferred taxes in respect of temporary differences outweighing a reduction in deferred tax assets recognized on loss carryforwards as a result of a downgraded earnings expectation in view of the economic situation.

Net loss for the year The economic impact of the coronavirus crisis on business performance resulted in a net loss of €117.6 million being reported for 2020.

FINANCIAL POSITION

Financial management in the DEUTZ Group is one of the core functions of the Group, and DEUTZ AG holds responsibility for this function. The basic principles and objectives of financial management at DEUTZ AG are therefore largely the same as those of the Group, as is the funding of DEUTZ AG. In this regard, please refer to the relevant sections of this combined management report. See 'Financial position of the DEUTZ Group', p. 42 onward.

Overview of DEUTZ AG's financial position

€ million

	2020	2019	Change
Cash flow from operating activities	24.5	67.0	–42.5
Cash flow from investing activities	–58.0	–142.2	84.2
Cash flow from financing activities	45.0	–23.3	68.3
Change in cash and cash equivalents	11.5	–98.5	110.0
Free cash flow[1]	–34.3	–74.4	40.1
Cash and cash equivalents at Dec. 31	28.7	17.2	11.5

[1] Free cash flow: from operating and investing activities less net interest expense.

Liquidity The significant decline in operating profit as a result of the coronavirus pandemic and the repayment of current liabilities to factoring companies led to a much lower level of cash flow from operating activities than in the prior-year period. Net cash used for investing activities was €84.2 million lower than in 2019. This decline was due to reduced capital expenditure on property, plant and equipment and intangible assets and, in particular, to much lower expenditure on acquisitions. Whereas the payments for the acquisition of the shares in DEUTZ Austria GmbH and in the service companies PRO MOTOR Servis CZ s.r.o. and Motor Center Austria GmbH in 2020 amounted to €1.6 million, the amount in the prior year for the purchase of shares in JV Hunan DEUTZ Power and the acquisitions of Futavis and DPS Power Group came to €60.7 million. The main factor affecting cash flow from financing activities was the drawdown of short-term lines of credit. To secure its liquidity, DEUTZ has also had a further working capital facility of €150.0 million at its disposal since May 2020, although it has not used it so far. This is in addition to an existing working capital facility of €160.0 million. Despite the marked deterioration in operating profit, free cash flow improved significantly, mainly because of the sharp decrease in net cash used for investing activities.

Capital expenditure After deducting investment grants, DEUTZ AG's capital expenditure in 2020 amounted to a total of €59.9 million (2019: €155.5 million). This was broken down into €35.4 million (2019: €49.3 million) on property, plant and equipment, €16.0 million (2019: €28.9 million) on intangible assets, and €8.5 million (2019: €77.3 million) on investments. Additions to property, plant and equipment mainly related to the set-up of the new assembly line in Cologne-Porz for engine series with a capacity of less than 4 liters, which we brought on stream in the third quarter, and to replacement investment in tools, equipment, and machinery. DEUTZ also invested in new and more efficient testing equipment. Capital expenditure on intangible assets was mainly in connection with the development of the new 5.2 engine series and the adaptation of our engines to meet the EU Stage V emissions standard, which is now in effect. Additions to investments mainly related to a capital increase of €6.3 million at the subsidiary DEUTZ (Shanghai) Co. Ltd. and the acquisition, for a purchase price of €1.6 million, of the companies DEUTZ Austria, Motorcenter Austria, and Pro Motor Servis CZ s.r.o.

NET ASSETS

Overview of DEUTZ AG's net assets

€ million

	Dec. 31, 2020	Dec. 31, 2019	Change
Non-current assets	646.3	669.9	669.9
Current assets	351.2	419.8	419.8
Prepaid expenses	2.5	1.8	1.8
Deferred tax assets	71.9	70.0	70.0
Total assets	**1,071.9**	**1,161.5**	**1,161.5**
Equity	572.8	690.4	690.4
Provisions	275.6	257.1	257.1
Liabilities	222.3	213.1	213.1
Deferred income	1.2	0.9	0.9
Total equity and liabilities	**1,071.9**	**1,161.5**	**1,161.5**
Working capital[1] (€ million)	79.2	86.8	86.8
Working capital ratio (Dec. 31, %)	7.3	5.3	5.3
Equity ratio[2] (%)	53.4	59.4	59.4

[1] Working capital: (inventories plus trade receivables less trade payables) as at the balance sheet date divided by revenue for the previous twelve months.
[2] Equity ratio: total equity and liabilities.

Non-current assets Compared with the end of 2019, non-current assets were down by €23.6 million. This decrease was mainly attributable to write-downs of investments amounting to €19.6 million and impairment losses on capitalized development projects and sales licenses totaling €13.3 million. Net capital expenditure (additions less depreciation and amortization) on property, plant and equipment and on financial and intangible assets totaling €13.2 million were a factor on the plus side. Net Disposals amounted to €4.0 million and mainly related to assets loaned to subsidiaries.

Current assets The sharp decrease in current assets primarily resulted from the reduction in receivables due from affiliated companies.

Working capital Working capital stood at €79.2 million as at December 31, 2020, which was €7.6 million lower than the level reported a year earlier. Decreases in inventories and trade receivables were the main factor in this decline. However, because of the sharp fall in revenue, the working capital ratio as at December 31, 2020 had increased to 7.3 percent (December 31, 2019: 5.3 percent).

Equity ratio Owing to the net loss reported in 2020, equity fell to €572.8 million, a decrease of €117.6 million. The Annual General Meeting agreed to suspend the dividend payment for 2019 due to the economic impact of the coronavirus crisis. The equity ratio had fallen to 53.4 percent at the end of the year.

Provisions This item increased primarily because of the provisions that were recognized for measures in connection with the 'Transform for Growth' global restructuring program, which mainly encompass severance payment expenses, early retirement arrangements, and other costs that are directly related to the restructuring.

EMPLOYEES

DEUTZ AG employed 3,139 people as at December 31, 2020, which was 372 fewer than at the end of 2019. The discontinuation of the use of temporary workers due to coronavirus meant that the number of temporary workers employed at DEUTZ AG as at December 31, 2020 had fallen to 70 (December 31, 2019: 149 temporary workers). See 'Employees', p. 34, for further information.

From a segment perspective, DEUTZ Compact Engines employed 2,666 people as at December 31, 2020, 308 fewer than it had employed a year earlier. The number of employees at DEUTZ Customized Solutions was 473, which was down by 64 compared with the end of 2019.

DEUTZ AG: Employees

Headcount

	Dec. 31, 2020	Dec. 31, 2019
Cologne	2,509	2,767
Ulm	473	548
Other	157	196
Total	**3,139**	**3,511**

OPPORTUNITY AND RISK REPORT

DDEUTZ AG is integrated into the risk management system of the DEUTZ Group. As a head-office function, risk management for the Group is performed by DEUTZ AG. Information about the structuring and mechanics of the risk management system and of risk management with regard to financial instruments can be found in the risk report of the DEUTZ Group, p. 59 onward.

Because DEUTZ AG is closely integrated with the other Group companies, its risk and opportunities situation is essentially the same as that of the Group. Risks arising from subsidiaries may have an effect on DEUTZ AG because of the carrying amount of an equity investment, reduced dividend payments, and the internal business relations. The risks and opportunities for the DEUTZ Group are described in this combined management report. See 'Risk report of the DEUTZ Group', p. 59 onward, for further information.

Information about DEUTZ AG's internal accounting-related control system and about risk management with regard to the use of financial instruments at DEUTZ AG can be found in the combined management report. See 'Internal control system', p. 63, for further information.

OUTLOOK

DEUTZ AG performs the head-office functions of the DEUTZ Group and is the biggest production company within the Group by some margin. Because of DEUTZ AG's wide-ranging relationships with other Group companies and because of its size within the Group, the expectations presented in the Group outlook for 2021 are essentially the same as those for DEUTZ AG. We therefore anticipate that the revenue of DEUTZ AG will develop largely in line with the statements made for the DEUTZ Group. In 2021, we expect to achieve net income in the mid double-digit millions of euros – which will represent a significant improvement on the result for 2020 – on the back of a modest improvement in the market, due to the cost-cutting measures introduced by the 'Transform for Growth' efficiency program, because the negative impacts from 2020 are unlikely to be repeated, and because payment of the final instalment of the purchase consideration for the disposal of our former Cologne-Deutz site is expected to result in a positive one-off item.[1] See 'Outlook for the DEUTZ Group', p. 66 onward, for further information.

For information about events after the reporting period, please see note 30 on page 156 of the notes to the consolidated financial statements.

[1] The amount and the date of the payment depend on when the development plan for the site is formally approved and so cannot be precisely determined yet.

NON-FINANCIAL REPORT PURSUANT TO SECTIONS 289b AND 315b HGB

DEUTZ AG publishes a separate combined non-financial report for the DEUTZ Group and DEUTZ AG. We refer here to our remarks on pages 70 onward of the annual report and to our website **www.deutz.com/nfb2020/en**.

CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTIONS 289f AND 315d HGB

The corporate governance declaration pursuant to section 289f HGB is an integral element of the combined management report. We refer here to our remarks on page 178 of the annual report and to our website **www.deutz.com/ezu2020/en**.

DISCLOSURES PURSUANT TO SECTIONS 289a AND 315a HGB

Composition of the issued capital There were no changes to the issued capital (share capital) of DEUTZ AG in 2020. As at December 31, 2020, the issued capital amounted to €308,978,241.98 and was divided into 120,861,783 no-par-value bearer shares.

Restrictions affecting voting rights or the transfer of shares We are not aware of any restrictions affecting voting rights or the transfer of shares.

Direct or indirect shareholdings representing more than 10 percent of voting rights At the end of 2020, there were no direct or indirect shareholdings in DEUTZ AG representing more than 10 percent of the voting rights.

Legal provisions and Statute provisions regarding the appointment and removal of members of the Board of Management and regarding changes to the Statutes According to articles 7 (1) and 7 (2) of the Statutes of DEUTZ AG:

"(1) The Board of Management shall comprise at least two members.
(2) The Supervisory Board shall determine the number of members of the Board of Management and the allocation of responsibilities. It may draw up and issue rules of procedure."

As far as the appointment and removal of members of the Board of Management are concerned, sections 84 and 85 of the German Stock Corporation Act (AktG) and section 31 of the German Codetermination Act (MitbestG) also apply.

According to article 14 of the Statutes of DEUTZ AG: "The Supervisory Board may change the wording but not the spirit of the Statutes." Sections 179 and 133 AktG also apply in the case of changes to the Statutes.

Authority of the Board of Management, in particular with regard to share issue or buyback The Board of Management is authorized, subject to the consent of the Supervisory Board, to increase the issued capital of the Company on or before April 25, 2023 on one or more occasions in installments through the issue of up to 36,258,534 new no-par-value bearer shares for cash by up to a total amount of €92,693,470.30 (authorized capital I). Pre-emption rights must be granted to existing shareholders. Pursuant to section 203 (1) sentence 1 and section 186 (5) AktG, the new shares may be transferred to one or more banks or to a company operating under section 53 (1) sentence 1 or section 53b (1) sentence 1 or section 53b (7) of the German Banking Act (KWG) subject to an undertaking by the bank(s) or company to offer the shares to existing shareholders (indirect pre-emption right). However, the Board of Management is authorized, subject to the consent of the Supervisory Board, to disapply the pre-emption rights of shareholders for fractional amounts arising on the calculation of pre-emption rights. The Board of Management is further authorized, with the consent of the Supervisory Board, to specify the further content of the share rights and the terms of the share issue for implementing any capital increases under authorized capital I. The Board of Management is also authorized, subject to the consent of the Supervisory Board, to increase the issued capital of the Company on or before April 25, 2023 on one or more occasions in installments through the issue of up to 24,172,356 new no-par-value bearer shares for cash and/or non-cash contribution by up to a total amount of €61,795,646.86 (authorized capital II). Pre-emption rights must be granted to existing shareholders. Pursuant to section 203 (1) sentence 1 and section 186 (5) AktG, the new shares may be transferred to one or more banks or to a company operating under section 53 (1) sentence 1 or section 53b (1) sentence 1 or section 53b (7) KWG subject to an undertaking by the bank(s) or company to offer the shares to existing shareholders (indirect pre-emption right). However, the Board of Management is authorized, subject to the consent of the Supervisory Board, to disapply the pre-emption rights of the existing shareholders

a) for fractional amounts;
b) for capital increases against non-cash contributions, in particular
   (i) when issuing new shares for mergers or acquisitions of entities, parts of entities, or equity investments in entities, including increases in existing shareholdings or other assets eligible as capital contributions in connection with such acquisition plans, including receivables from the Company,

   (ii) when acquiring other assets or claims to the acquisition of assets, and

   (iii) when carrying out a so-called scrip dividend, where shareholders are offered the option of exchanging their rights to a dividend (wholly or in part) for new shares;

c) for cash contributions, if the issue price of the shares is not significantly below the market price of the existing publicly listed shares in the Company on the date the final issue price is fixed;

d) in order to grant holders or creditors of bonds with option or conversion rights to shares of the Company or with option or conversion obligations (where such bonds are issued or are to be issued in the future by the Company or by one of its direct or indirect majority shareholdings) a pre-emption right to the same amount of new shares in the Company that they would be entitled to as a shareholder following the exercise of their option or conversion rights or after fulfilling option or conversion obligations.

The total shares issued subject to a disapplication of pre-emption rights against cash and/or non-cash contributions must not exceed 20 percent of the issued capital either at the time this authorization becomes effective or at the time this authorization is utilized, if the amount of issued capital is lower. The aforementioned 20 percent limit includes shares that are sold or issued during the term of this authorization on the basis of all other authorizations under disapplication of pre-emption rights ('disapplication limit'), with the exception of a disapplication of pre-emption rights for fractional amounts. An issue of shares in this sense also includes the issue or creation of option or conversion rights or obligations in respect of the Company's shares from bonds issued by the Company or by its direct or indirect majority shareholdings, if the bonds are issued on the basis of an appropriate authorization during the term of this authorization, disapplying pre-emption rights. If another authorization for a disapplication of shareholders' pre-emption rights that was exercised during the term of this authorization is renewed by the Annual General Meeting, however, the disapplication limit will not apply to the extent that the renewed authorization permits the issue of shares with disapplication of pre-emption rights.

The total of the shares issued for cash with the disapplication of pre-emption rights pursuant to c) must not exceed 10 percent of the issued capital at the time the issue becomes effective or – if lower – 10 percent of the issued capital existing at the time this authorization is exercised. The aforementioned 10 percent limit includes shares that are sold or issued during the term of this authorization on the basis of other authorizations in direct application or application with the necessary modifications of section 186 (3) sentence 4 AktG with the disapplication of pre-emption rights ('disapplication limit'). This restriction also includes shares that have been or will be issued in order to service bonds with conversion rights, option rights, or conversion or option obligations in so far as the bonds were issued by the Company or a direct or indirect majority shareholding during the term of this authorization with the disapplication of pre-emption rights in application of section 186 (3) sentence 4 AktG with any necessary modifications. If another authorization for a disapplication of shareholders' pre-emption rights that was exercised during the term of this authorization is renewed by the Annual General Meeting, the disapplication limit will cease to apply to the extent that the renewed authorization permits the issue of shares with the disapplication of pre-emption rights in direct application of section 186 (3) sentence 4 AktG or in application of section 186 (3) sentence 4 AktG with any necessary modifications. The Board of Management is further authorized, with the consent of the Supervisory Board, to specify the further content of the share rights and the terms of the share issue for implementing any capital increases under authorized capital II.

FURTHER DISCLOSURES

No bearers of shares have any special rights conferring authority to control the Company. Numerous employees have direct shareholdings in DEUTZ AG. There are no restrictions affecting the direct exercise of rights of control in connection with these shares.

A consortium of banks has provided DEUTZ AG with two syndicated cash credit lines of €160 million and €150 million respectively. Under the terms of the loan agreements, the lenders can demand that the outstanding loan be repaid within a specified period in the event of a change of control, i.e. one or more people acting jointly acquire a direct or indirect shareholding of at least 50 percent of all shares and/or voting rights in DEUTZ AG. If DEUTZ AG needs to repay a considerable proportion of the loans prematurely in the event of a change of control, it needs to raise the necessary funds some other way in the short term.

The cooperation agreement concluded between DEUTZ AG and Liebherr gives Liebherr the right to terminate the agreement if there is a change of control at DEUTZ AG. A change of control for these purposes shall be deemed to have occurred if a competitor of Liebherr directly or indirectly acquires a shareholding representing at least 30 percent of the voting rights in DEUTZ AG or is able to exert direct or indirect influence by means of contracts. Similarly, under the agreement underlying the joint venture with SANY, a change of control at one of the joint venture partners gives the other joint venture partner the right to terminate the agreement. A change of control for these purposes shall be deemed to have occurred if a third party acquires more than 50 percent of the shares or voting rights in DEUTZ AG, otherwise obtains control over DEUTZ AG in accordance with German law, or is otherwise able to exert significant influence over the decisions of its shareholders or Board of Management. In the event of a change of control, the partners must first try to find a mutually acceptable solution. If they cannot, the partner entitled to terminate the agreement may purchase the other partner's shares at an agreed price ('call option'), sell its shares at an agreed price to the partner that gave rise to the termination right ('put option'), or demand that the joint venture be liquidated.

And under the cooperation agreement with Deere & Company, either party has the right to terminate the agreement in the event of a change of control or if a competitor of the other partner acquires an equity investment of more than 25 percent. A change of control for these purposes shall be deemed to have occurred if a third party acquires more than 50 percent of the shares in the other company or is able to exert a controlling influence within the meaning of section 17 AktG.

The service contracts of the Board of Management members that were in force in the reporting year stipulate, subject to certain requirements, the following provision in the event of a change of control: If, within nine months of the change of control, their appointment (1) is revoked or (2), subject to certain other requirements, ends as a result of a change to the legal form of DEUTZ AG, they will receive 150 percent of the severance cap pursuant to article 4.2.3 of the current **German Corporate Governance Code** (version dated February 7, 2017).

As set out in the service contracts in force in the reporting year, a change of control is deemed to occur when one or more other people or other companies acting jointly within the meaning of section 30 of the German Securities Acquisition and Takeover Act (WpÜG) acquire more than 30 percent of the voting rights and therefore control of the Company.

In the case of Dr. Hiller, no change of control will be deemed to have occurred if the former major shareholder, AB Volvo, acting on its own or with others acquires more than 30 percent of the voting rights in the Company. The service contracts of Board of Management members concluded with effect from 2021 in view of the new provisions in the German Act Implementing the Second Shareholder Rights' Directive (ARUG II) and in the German Corporate Governance Code do not, in accordance with the suggestion in article G.13 DCGK, provide for any termination benefits if the service contract is ended prematurely as the result of a change of control.

The long-term incentive plans (LTI), under which the highest level of senior management in the DEUTZ Group (executives and managing directors of major subsidiaries) have been granted virtual options that they can exercise after a vesting period and upon achievement of certain performance targets more information: Notes to the consolidated financial statements, p. 156 contain the following provision in the event of an entity – either alone or acting jointly with an affiliated company – acquiring a minimum of 50 percent of the shares in DEUTZ AG: Provided one of the performance targets has been achieved, the LTI participants may exercise their options within a short time frame after the acquisition, even if the vesting period has not yet expired.

DEUTZ AG has no indemnification agreements with employees that would come into force in the event of a takeover bid.

EXPLANATORY STATEMENT BY THE BOARD OF MANAGEMENT IN CONNECTION WITH SECTIONS 289a, 315a HGB

The disclosures contained in the combined management report and management report pursuant to sections 289a and 315a HGB relate to arrangements that may be significant in the success of any public takeover bid for DEUTZ AG. It is the opinion of the Board of Management that these arrangements are normal for publicly traded companies comparable with DEUTZ AG.

REMUNERATION REPORT

REMUNERATION OF THE BOARD OF MANAGEMENT

The annual remuneration paid to the members of DEUTZ AG's Board of Management consists of fixed and variable components as well as a pension benefit contribution. The fixed component is paid monthly as basic salary. The variable component is performance-related and consists of two parts: the first is a bonus that is based on attainment of specific targets; the other comes in the form of virtual performance shares that offer a long-term incentive. For the pension contribution, an amount is paid into a benevolent fund; there is no other entitlement to a pension or surviving dependants' pension.

The calculation of the annual bonus is based on the degree of attainment of annual performance targets (short-term targets). The number, content, and weighting of the short-term targets are set annually by the Supervisory Board at its due discretion after consulting with the respective Board of Management member. The minimum level of target attainment for the payment of a bonus is 75 percent; the maximum level of target attainment relevant to the payment of the bonus is 150 percent. The highest amount that can be paid as a bonus in the case of maximum target attainment is determined by the respective service contract. Only 60 percent of the annual bonus is paid out at the end of the year. The rest of the bonus is paid out in two equal installments of 20 percent, subject to the attainment of further medium-term financial targets (medium-term targets), at the end of a further one year and two years, whereby the amount that is paid out is based on the level of attainment of these medium-term targets (to a maximum of 150 percent). The highest permissible amounts for these further payments are also contractually agreed. The targets for all payments are set at the beginning of the year for which the bonus is to be paid.

Details regarding the virtual performance shares are set forth in a **long-term incentive plan** for the Board of Management (LTI plan BoM), which forms part of the contractual agreements with the Board of Management members. The number of virtual performance shares allocated to a Board of Management member is calculated each year on the basis of the contractually specified euro amount divided by a reference price. The reference price is the average closing price of DEUTZ AG shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the 60 trading days preceding the grant date. Virtual performance shares represent an entitlement to payment of a cash amount in accordance with the provisions of the LTI plan BoM. The cash amount per virtual performance share corresponds to the average closing price of DEUTZ shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the last 60 trading days prior to the expiry of a vesting period of four years after the grant date, and is limited to a maximum of 1.5 times the reference price. Entitlement to the cash payment only arises, however, if either the market price of DEUTZ shares has increased by at least 30 percent relative to the reference price, or the market price of DEUTZ shares has outperformed the MDAX (or a future index replacing the MDAX) by at least 10 percentage points during the vesting period. A further requirement is that the Board of Management member makes a personal investment by holding one DEUTZ share for every 20 virtual performance shares received.

The variable remuneration is designed in a way that the majority of it is measured against performance over several years. The overall remuneration structure is designed to support the sustainable growth of the Company. Additional benefits received by the members of the Board of Management include, in particular, a company car and allowances toward insurance policies. If the employment contract of a member of the Board of Management is terminated prematurely without good cause, the member of the Board of Management receives a severance payment equivalent to the total remuneration for the period until the original termination date of his or her contract of employment up to a maximum of two years. For the purpose of this severance payment, the amount of total remuneration is determined by the total remuneration paid for the last full financial year, or the anticipated total remuneration for the then current financial year, if appropriate (cap on severance pay in accordance with article 4.2.3 of the German Corporate Governance Code (version dated February 7, 2017).

In light of the new version of the German Corporate Governance Code, DEUTZ AG reviewed the existing provisions governing Board of Management remuneration and amended them with effect from 2021. The service contracts of the Board of Management members in force in the reporting year stipulated a special provision in the event of a change of control. more information:
Disclosures pursuant to sections 289a and 315a HGB, p. 52.

The table below presents the total remuneration of the Board of Management in accordance with the recommendation in the German Corporate Governance Code (version dated February 7, 2017). In line with this recommendation, the benefits granted in 2020 and those actually paid are reported separately. It should be taken into consideration for 2020 that the Board of Management voluntarily waived its one-year variable remuneration in light of the significant impact of the coronavirus crisis.

The following table shows the breakdown of benefits granted to members of the Board of Management:

Benefits granted

€ thousand

	Dr. Ing Frank Hiller Chairman of the Board of Management				Dr. Andreas Strecker			
	2019	**2020**	2020 (min)	2020 (max)	2019	**2020**	2020 (min)	2020 (max)
Fixed remuneration	750	750	750	750	580	580	580	580
Additional benefits[1]	176	171	171	171	143	144	144	144
Total	**926**	**921**	**921**	**921**	**723**	**724**	**724**	**724**
One-year variable remuneration[2]	450	0	0	0	270	0	0	0
Multi-year variable remuneration								
2020–2021 deferral (2019 bonus)	300	0	0	0	180	0	0	0
2021–2022 deferral (2020 bonus)	0	300	0	450	0	180	0	270
LTI 2019–2023[3]	200	0	0	0	125	0	0	0
LTI 2020–2024[3]	0	200	0	300	0	150	0	225
Total	**950**	**500**	**0**	**750**	**575**	**330**	**0**	**495**
Miscellaneous	0	0	0	0	0	0	0	0
Total remuneration	**1,876**	**1,421**	**921**	**1,671**	**1,298**	**1,054**	**724**	**1,219**
One-year variable remuneration	320	0			192	0		
Multi-year variable remuneration								
2018–2019 deferral (2017 bonus)	–15	0			0	0		
2019–2020 deferral (2018 bonus)	–66	0			–33	0		
2020–2021 deferral (2019 bonus)	167	–131			100	–78		
2021–2022 deferral (2020 bonus)	0	0			0	0		
Total remuneration	**1,532**	**990**			**1,107**	**796**		

The following table shows the breakdown of benefits actually paid to members of the Board of Management:

Benefits paid

€ thousand

	Dr. Ing Frank Hiller Chairman of the Board of Management		Dr. Andreas Strecker		Michael Wellenzohn	
	2020	2019	**2020**	2019	**2020**	2019
Fixed remuneration	750	750	580	580	580	580
Additional benefits	171	176	144	143	137	131
Total	**921**	**926**	**724**	**723**	**717**	**711**
One-year variable remuneration	314	537	188	269	195	304
Multi-year variable remuneration						
2017–2018 deferral (2016 bonus)	0	0	0	0	0	56
2018–2019 deferral (2017 bonus)	196	233	0	0	111	132
2019–2020 deferral (2018 bonus)	176	0	88	0	100	0
LTI 2015–2019	0	0	0	0	0	195
LTI 2016–2020	0	0	0	0	232	0
Miscellaneous	0	0	0	0	0	0
Total	**686**	**770**	**276**	**269**	**638**	**687**
Miscellaneous	0	0	0	0	0	0
Pension expense	0	0	0	0	0	0
Total remuneration	**1,607**	**1,696**	**1,000**	**992**	**1,355**	**1,398**

	Michael Wellenzohn			
	2019	**2020**	2020 (min)	2020 (max)
	580	580	580	580
	131	137	137	137
	711	**717**	**717**	**717**
	279	0	0	0
	186	0	0	0
	0	186	0	279
	165	0	0	0
	0	165	0	248
	630	**351**	**0**	**527**
	0	0	0	0
	1,341	**1,068**	**717**	**1,244**
	199	0		
	–9	0		
	–37	0		
	104	–82		
	0	0		
	1,133	**800**		

Instead of the target values for one-year variable remuneration and for deferrals from one-year variable remuneration required under the German Corporate Governance Code (DCGK), the figures in the table below for total remuneration indicate the remuneration figures that are required to be disclosed under the applicable accounting standards. For the one-year variable remuneration, these represent the provisions for the annual bonus for 2019, adjusted for any over- or under-allocation in the previous year. With regard to the deferrals from the one-year variable remuneration, the figures represent the amounts vested and recognized in provisions in 2019 and the adjustments of the amounts recognized in provisions in previous years.

[1] Includes payment into a life insurance policy.
[2] The figures given for one-year variable remuneration and for deferrals from one-year variable remuneration represent the amount granted for full achievement of targets. In 2020, the Board of Management waived its one-year variable remuneration due to the pandemic.
[3] Share-based remuneration represents the fair value of the options on the date of grant. Please refer to Note 31 for a description of the structure of the share-based remuneration agreements. General contractual conditions are identical for all members of the Board of Management.

The total expense for share-based payments recognized in the reporting year amounted to €150 thousand for Dr. Ing. Hiller (2019: €152 thousand) and €81 thousand for Dr Strecker (2019: €54 thousand). In connection with the share-based payments for Mr. Wellenzohn, income recognized from the reversal of provisions amounted to €115 thousand in the reporting year (2019: €2 thousand).

REMUNERATION OF THE SUPERVISORY BOARD

The rules on remuneration that currently apply to the Supervisory Board were approved by the Annual General Meeting on April 26, 2018. They are set out in section 15 of the Company's Statutes and stipulate that the members of the Supervisory Board of DEUTZ AG receive fixed annual remuneration of €40 thousand. The chairperson of the Supervisory Board receives twice this amount and the deputy one-and-a-half times the amount. The members of the Supervisory Board are also reimbursed for their out-of-pocket expenses and receive a fee of €1.5 thousand for each Supervisory Board meeting they attend. Members of the Human Resources Committee and members of the Audit Committee receive additional fixed annual remuneration of €12 thousand. Members of other committees, in particular members of the Nominations Committee and Arbitration Committee, receive additional fixed annual remuneration of €8 thousand. The committee chairpersons receive double this amount, and their deputies one-and-a-half times the amount. Each member of a committee also receives an attendance fee of €1.5 thousand for each committee meeting attended.

In addition, DEUTZ reimburses the members of the Supervisory Board for any VAT they incur in connection with the performance of their mandate.

The following table shows the breakdown of total remuneration paid to members of the Supervisory Board for their work as Supervisory Board members. It should be noted that the Supervisory Board voluntarily waved part of its fixed remuneration due to the significant impact of the coronavirus crisis.

€ thousand	Fixed remuneration	Attendance fees	**Total**
Dr. Ing. Bernd Bohr Chairman	136	27	163
Corinna Töpfer-Hartung Deputy chairwoman	89	25	114
Sophie Albrecht	50	14	64
Sabine Beutert	52	18	70
Yavuz Büyükdag	34	12	46
Dr. Fabian Dietrich	34	12	46
Dr. Ing. Ulrich Dohle (until October 7, 2020)	31	0	31
Hans-Peter Finken	34	12	46
Patricia Geibel-Conrad	54	21	75
Alois Ludwig	9	2	11
Dr. Ing. Rudolf Maier (from October 7, 2020)	9	2	11
Dr. Dietmar Voggenreiter	34	12	46
Ali Yener	42	10	52
Total	**657**	**183**	**840**

RISK REPORT

RISK MANAGEMENT SYSTEM

To ensure their long-term survival, companies must act quickly – and react even faster – in a world in which economic conditions and the individual markets are constantly in a state of rapid change. Against the background of increasingly complex corporate structures and growing internationalization, systematic risk management therefore forms an important basis for long-term business success.

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, the subsidiaries, the sales offices, and the authorized agents. This organizational structure presents the Company with both opportunities and business-specific risks.

Our objective is to generate profits on a sustained basis and to increase these profits significantly over the medium and long term in order to develop the Company and secure its future competitiveness. It is therefore critically important to identify and assess business risks at an early stage and take corrective action where required. DEUTZ has an appropriate risk management system to ensure it can meet this requirement.

The risk management system heightens employees' sense of responsibility and raises their awareness of potential or existing risks. It is intended to help everyone involved to identify, analyze, and communicate risks in good time and to initiate effective corrective action.

The basic principles, monitoring standards, personnel responsibilities, functions, and procedures in the risk management system have been defined by the Board of Management of DEUTZ AG and summarized in a manual that is continually updated. A systematic reporting structure provides the basis for the work of the Risk Management Committee and ensures that all major risks are documented and communicated, and that appropriate corrective action is taken and documented at an early stage.

The DEUTZ Group conducts risk inventories four times a year. These risk inventories are carried out in all functions and areas of the Company and in the main affiliated companies to identify whether new risks or changes to existing risks have arisen compared with the Company's short-term and medium-term planning. The risks are categorized by importance, based on estimated probability of occurrence and potential impact. At the same time, a review is carried out to establish whether and how action that has been agreed and implemented has successfully minimized known risks or whether there is a need for further action. The Risk Management Committee then analyzes the risks and the progress of the action that is being taken and reports to the Board of Management on the results of the risk inventory. To enable the Company to respond promptly at all times to any possible risks that may arise, risk officers and their employees are under an obligation to submit immediate reports on any new material risks or if there is an increase in the threat from risks that are already known. These reports are to be separate from the regular reporting requirements. The risk management system does not identify opportunities, only risks.

The DEUTZ Group's system for the early identification of risks pursuant to section 91 (2) AktG is audited annually by the independent auditor and at regular intervals by Corporate Audit to assess whether the system is functioning efficiently.

RISK MANAGEMENT WITH REGARD TO FINANCIAL INSTRUMENTS

Basic principles Owing to its global business operations, the DEUTZ Group is exposed to various financial risks that can arise from adverse movements and trends in the international sales, procurement, interest-rate, and foreign-exchange markets. The overarching risk management strategy used is designed to mitigate potentially negative effects on the financial position. The management and early identification of financial risks is based on annual financial planning, together with updates and regular analyses of variances during the course of the year. Financial management in the Group is the responsibility of DEUTZ AG as the parent company.

The Treasury department identifies, measures, and hedges financial risk in close collaboration with the Group's operating segments. The Board of Management specifies principles for the Group's overarching risk management strategy as well as guidelines for certain aspects, such as how to manage currency risk, interest-rate risk, and credit risk and how to hedge them using derivative and non-derivative financial instruments. The Finance Committee, which meets every quarter, or on an ad hoc basis as required, provides a forum at which operational issues relating to risk management and other financially relevant decisions are discussed. The Finance Committee consists of the relevant member of the Board of Management plus the Head of Finance & Controlling and a further representative of the Treasury department.

The objective of risk management is to mitigate fluctuations in profits and cash flows caused by volatility in commodity, interest-rate, and foreign-exchange markets. Derivative financial instruments are used only for **hedging** purposes, i.e. only in connection with corresponding underlying transactions arising from the Group's ordinary business activities or financial transactions that have a countervailing risk profile to that of the hedging transaction. The nature and scope of the hedged items are specified in a binding financing directive.

DEUTZ works exclusively with leading banks in order to minimize **counterparty risk**.

The Treasury department manages the lines of credit in accordance with the Group's financing principles. Subsidiaries are funded primarily by DEUTZ Group loans. We manage the financial risk as follows:

Risk from bad debts We protect ourselves against the risk of bad debts by constantly monitoring our situation through electronic and other means and by regularly analyzing receivables and their breakdown. The Company takes out credit insurance to cover a large proportion of its receivables where payment for goods has not been received in advance or is not covered by a letter of credit.

Currency risk arising from operating activities Currency risk, primarily in regard to US dollars, which arises as a result of transactions with third parties denominated in foreign currency, is monitored by means of a central currency management system and mitigated by the use of derivative financial instruments. The DEUTZ Group's net currency exposure is normally hedged by forwards equivalent to 50 to 80 percent of open items. DEUTZ is also taking specific action to increase the volume of purchasing in US dollars; this enables the Company to counteract exchange-rate risks from sales invoiced in US dollars by way of natural hedging.

Interest-rate risk arising from funding arrangements The DEUTZ Group is exposed to risk from interest-rate changes, above all in relation to floating-rate loans and other loans that it has taken up.

Liquidity risk The funding agreements concluded provide the Company with adequate liquidity for its further development. During the term of the agreement, DEUTZ AG must ensure that the DEUTZ Group complies with certain financial covenants (ratio of financial debt to equity and to EBITDA). The financial covenants allow sufficient leeway in line with our medium-term balance sheet and profit planning. If, however, there is a dramatic deterioration in the general economic situation – for example, because of the coronavirus pandemic – there is a risk of the covenants being breached in the short term. Should such a risk materialize, we would approach our funding partners in advance in order to negotiate the necessary waiver and to enable further amounts to be drawn down under the syndicated loan. See also 'Financial risk management', note 26, p. 143.

RISK ASSESSMENT

The assessment of risks in the DEUTZ Group is based on the estimated probability of occurrence in conjunction with the potential impact of the risk on the business objectives. In the following risk report for the DEUTZ Group, the risks are categorized as either 'low', 'moderate', or 'high'. Risks that have been classified as 'low' would be expected to have a low impact of up to €10 million on financial position and financial performance. Risks classified as 'moderate', however, would have a significant impact, of between €10 million and €50 million, and risks classified as 'high' would have a major impact, of over €50 million, on financial position and financial performance. Risks to the Company's survival as a going concern are described as such.

DEUTZ Group: Risk assessment

Probability of occurrence (%)	minor	moderate	significant	critical	very critical
80–99	low	moderate	moderate	high	high
60–79	low	moderate	moderate	high	high
40–59	low	moderate	moderate	moderate	high
20–39	low	low	moderate	moderate	moderate
1–19	low	low	low	moderate	moderate

Impact

RISK

As with the internal risk report, the following presentation of the current risk situation is focused on the risk factors that are important for the DEUTZ Group. Consequently, risks that are referred to were categorized at least as 'low' before measures to counter the risk were taken into account. In contrast to the internal risk management, the risks in the following description are more strongly aggregated and are listed by risk category.

Unless otherwise stated, the risks refer to 2021 and relate to the DEUTZ Compact Engines (DCE), DEUTZ Customized Solutions (DCS), and Other operating segments.

If not explicitly stated, the assessment of the risk is unchanged from the prior year.

The further course of the coronavirus pandemic and its consequences for the economy as a whole represent a major external risk for us. Further waves of infection, the lockdown measures that would result from this, and mutations of the virus could have a negative impact both on our unit sales and on our procurement and production. The effects on financial position and financial performance are taken into account in market risk and operational risk.

MARKET RISK

Geopolitical events, trade disputes, and pandemics can all influence the macroeconomic situation. Given that we operate in international sales markets, the aforementioned developments and events could have a negative impact on the financial position and financial performance of the DEUTZ Group. As well as having a direct effect on unit sales and revenue, this may also impact negatively on the value of the assets on our balance sheet. We operate in very cyclical markets in our main application segments, Construction Equipment and Material Handling, and in our principal sales regions of Germany, western Europe, China, and North America. Our objective is to continue to reduce this cyclicality from a regional and application segment perspective.

In the medium and long term, we seek to mitigate regional and application-related sales risks by aligning our development activities with our product strategy and by entering into alliances. We therefore pursue a strategy of signing up new customers and progressively expanding our business with them. These business development activities are focused on Asia and elsewhere. We are very well diversified and well positioned for the future in terms of the geographical and sectoral distribution of our customers. We supply the market-leading manufacturers in the various application segments.

Active management of orders, inventories, and stock levels is used to respond to volatility in the markets. We systematically mitigate the negative impact of external risks through the Company-wide efficiency program ‘Transform for Growth’, which was launched in 2020 with the aim of improving our efficiency and flexibility. See also ‘Transform for Growth’, p. 25.

Despite the countermeasures that are in place, we cannot completely control the external risks. In view of the measures in place, we continue to categorize the level of market risk with regard to the attainment of our targets as ‘moderate’ in 2021.

STRATEGIC RISK

Based on the objective of broadening our customer and product base, our strategy focuses on regional growth initiatives, primarily in China, and on the further development and resultant electrification of our product range. See also ‘Strategy and objectives’, p. 22 onward.

We are strengthening our engine and service business in China through our alliances with SANY, BEINEI, and HORIZON. These alliances will create fresh opportunities and potential for growth through new customer relationships, new production facilities, and new service partners. However, any investment always entails risks. The target market might not grow as anticipated, the introduction of new emissions standards could be postponed, and there could be delays and additional costs when projects are implemented.

Under our E-DEUTZ strategy, we are adding electric and hybrid drive systems to the existing technology portfolio. This strategy presents the DEUTZ Group with numerous opportunities but is, of course, also associated with risks. Changes affecting markets and prices may not be as anticipated either, while new product developments may not be as well received by customers as predicted or may not be able to compete with rival products.

We attempt to mitigate these risks by precisely analyzing the trends in our markets and by taking into account external market research. We also enter into close alliances with our major customers in the target markets. Our partners under our new strategy for China are market leaders. In October 2020, to strengthen our profitable service business, we acquired the companies DEUTZ Austria GmbH, Motorcenter Austria GmbH, and Pro Motor Servis CZ s.r.o., which sell and service diesel engines in Austria, the Czech Republic, Hungary, Slovakia, and Slovenia, providing us with direct access to the markets in these countries.

We closely monitor our strategic projects so that we are able to respond immediately to changes.

In view of the measures in place, we categorize the level of strategic risk with regard to the attainment of our financial targets as ‘low’ in 2021.

OPERATIONAL RISK

Procurement risk Supply shortages at our suppliers may lead to production downtime and delays in our own deliveries if there are no alternative sources of supply. This would adversely affect our earnings. In terms of the safeguarding of our supply chain, we see risks not only in the coronavirus pandemic and Brexit but also in potential shortages on the part of our suppliers, for example because of the current global supply issues in the semiconductor sector. We also see risks in the general economic and political trends and the associated paradigm shift within the automotive industry. Subsequent factory closures and discontinuation of products could have an impact on our supply chain. In addition, the steadily rising replenishment lead times for bought-in parts and bottlenecks in freight capacity may increase logistics costs and adversely affect our earnings.

We seek to mitigate these risks by carrying out intensive supplier management and ongoing monitoring of the market.

There are essentially three cornerstones to our procurement strategy for strategic and production-critical components: firstly, long-term supplier relationships and supply agreements; secondly, the increased use of second-source suppliers that are independent of each other; and, thirdly, where required, inhouse production and/or allocation of production to subcontractors. These measures minimize the procurement risks and secure the required capacity.

In view of the measures in place, we categorize the level of procurement risk with regard to the attainment of our financial targets as 'moderate' in 2021.

Production risk Fluctuations in capacity utilization in production that result from the level of dependency of our business model on the general economic situation can, just like breakdown-related production delays and restrictions related to the coronavirus pandemic, have a negative impact on our profitability.

We have drawn up a comprehensive safety plan, primarily to prevent production from being disrupted by the coronavirus pandemic. As well as rules on social distancing and the wearing of face masks throughout the premises, this includes increased cleaning cycles, the provision of hand sanitizer in entrance areas, sanitary facilities, and communal areas, and – depending on the level of severity of the pandemic at any given time – temperature checks for people entering the premises. In addition, all workstations were inspected as part of a special risk assessment and suitable safeguards, such as the installation of partitioning between individual workstations, were introduced as a result. Working from home was facilitated and even encouraged, especially for employees in administrative functions, and greater use was made of virtual meetings as a means of reducing workplace contacts and thus minimizing the risk of infection.

In order to avoid mistakes in planning and capital expenditure, the necessary production capacity is regularly reviewed and planned using different timescales: over a number of years as part of the medium-term planning process, which is revised each year, and for the following financial year as part of the budget planning process, which is then updated quarterly for the current year. Production program meetings and capacity planning meetings are held monthly to ensure that our capacity is adjusted in line with orders on hand. Where required, we are also increasingly making use of temporary employment contracts in order to ensure greater flexibility.

In view of the measures in place to avoid or minimize these risks, we continue to categorize the level of production risk with regard to our financial targets as 'low'.

Quality risks The DEUTZ Group is exposed to liability and warranty risks, for example as a result of delays to production start-up. Potential warranty claims and claims for compensation could have a negative impact on our financial position and financial performance.

We have set up local Quality departments to ensure quality in all plants and relevant areas of the Group. These departments systematically analyze sources of errors and defects, optimize production processes, take action to minimize the risk in production start-ups, and reduce warranty risks. A central quality management organization ensures that standardized processes and methods are in place and carries out regular audits. In addition, DEUTZ has defined uniform standards for the selection of suppliers and, in close cooperation with the suppliers, continuously improves the quality of supplied parts.

Regular certification audits and additional quality initiatives also enable us to handle the significant technical complexity of engines and to satisfy the steadily increasing quality requirements of our customers.

Sufficient provisions are recognized on the balance sheet to account for warranty risks. In view of the precautionary measures that have been taken, we continue to categorize any further quality risks that could negatively impact on our financial targets as 'low' for 2021.

OTHER RISKS

Cyber risk We are a technology-driven company that is heavily focused on research and development. We regard the continuing development of alternative drive solutions in connection with our electrification strategy as a competitive advantage that will form the basis of our long-term success. However, there is a risk that strictly confidential information, particularly concerning new technological insights or partnerships in research and development, could find its way to our competitors through illegitimate means. As well as the loss of confidential information, it is conceivable that forged documents could be used to siphon off capital without authorization. In addition, technical defects or outages in our IT systems could have a negative impact on our market position and on our financial position and financial performance. This might ultimately harm our reputation.

We have put a series of measures in place to protect against cyber risks. As well as regular security training for employees, these include security measures for computer hardware and IT security guidelines that have been laid down by management. In view of the precautions that have been taken, we continue to categorize these risks as 'low'.

Legal and compliance risks As a Group with multinational operations, DEUTZ is subject to a multitude of regulations under tax, competition, and patent law as well as to other legal and statutory requirements. Existing and potential legal disputes, along with possible infringements of the law, are recorded and analyzed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and an appropriate amount is recognized in the risk provisions in the accounts. The outcome of legal disputes and proceedings is uncertain, however. This means that there are further risks, not accounted for through provisions on the balance sheet, that could negatively impact on our financial targets.

Groupwide standards such as the general terms and conditions of business, sample contracts for various uses, and implementation provisions in the form of organizational guidelines are refined on an ongoing basis and reduce the level of new legal risks at DEUTZ. The Legal Affairs department and external lawyers are also regularly consulted about projects and the finalization of contracts that fall outside the scope of the standards developed for day-to-day business.

Based on the current status of ongoing cases and in view of the measures that have been taken either to avoid or minimize risk, we categorize the level of legal risk as 'low' (previous year: 'moderate').

OVERALL ASSESSMENT OF THE RISK SITUATION

We identify and evaluate material risks on an ongoing basis using our risk management system. Appropriate action is taken to manage these risks and, as far as possible, bring them under control. Changes in material risks are monitored regularly at Group level. Currently, the DEUTZ Group has not identified any risks that either individually or in their totality could jeopardize the continued existence of the enterprise as a going concern. Other risk factors changed only marginally year on year.

Because of the precautions that have been taken and our position in the market, we are confident in our ability to successfully manage the existing risks and overcome the resulting challenges.

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

The risk management system forms part of, and is closely linked to, the internal control system. Whereas the risk management system focuses on the identification, analysis, assessment, communication, and management of risk, the internal control system (**ICS**) integrates monitoring mechanisms (organizational and technical safeguards and controls) into processes with the aim of avoiding or limiting risk.

The Board of Management is responsible for setting up, monitoring, refining, and ensuring the effectiveness of the ICS. However, even a properly structured ICS is unable to provide absolute security; it can only provide a relative amount of security in helping to achieve targets and/or avoid material misstatements.

The aim of the internal accounting-related control system is to ensure that accounting is carried out consistently and in accordance with statutory requirements, generally accepted accounting principles, and internal guidelines. The accounting process itself includes those parts of the operating processes that contain the financial reporting value flows, the process for preparing the consolidated financial statements, and all information sources and processes from which the significant disclosures in the consolidated financial statements are derived.

In order to ensure that the consolidated financial statements are properly and consistently prepared, the Group adheres to the fundamental principles of separation of functions, having work checked by a second member of staff, and IT access restrictions to prevent unauthorized access to relevant data. There are written procedural instructions, in particular the Group accounting manual, that are regularly updated at head office and communicated throughout the Group. Each reporting entity is responsible for compliance with the manual, and the data reported to DEUTZ's Group Accounting department is validated on an ongoing basis during the preparation of monthly financial statements. Data is reported to the Group head office using a standard reporting tool that has been implemented throughout the Group. Additional control mechanisms covering the risks in the main processes, thereby guaranteeing a reliable accounting and reporting system, are normally set up locally at departmental level. Where necessary, we also use external service providers, such as independent assessors of pension liabilities. The Group Accounting department ensures that these requirements are adhered to across the Group.

Information relevant to accounting is shared on an ongoing basis with the Head of Finance & Controlling and the Chief Compliance Officer and passed on to the Chief Financial Officer in regular meetings.

Besides discussing the single-entity and consolidated financial statements, the Audit Committee set up by the Supervisory Board regularly discusses the quarterly financial reporting. The Audit Committee's monitoring function covers the effectiveness of the ICS set up by the Board of Management as well as the accounting process itself.

The ICS coordinator is responsible for continually refining the internal control system used by DEUTZ AG. This includes analyzing relevant business processes with regard to potential risks, ensuring that the ICS processes are documented, and verifying that the process control mechanisms in place are up to date and fit for purpose. The Board of Management and Audit Committee are routinely provided with reports on the status of the ICS.

Corporate Audit prepares a risk-based audit plan and verifies whether the statutory regulations and the DEUTZ Group's internal guidelines for its control and risk management system are being complied with. As part of its monitoring function, it also reviews whether the internal controls are functioning effectively. The findings of these reviews are reported directly to the Board of Management and allow us to eliminate any deficiencies that have been identified and ensure that the ICS is continually refined.

OPPORTUNITIES REPORT

In the dynamic markets in which the DEUTZ Group operates, there are, in addition to the aforementioned risk factors that can negatively impact on the attainment of the business objectives, also opportunities that can have a positive effect on the objectives of the Group for 2021 and beyond. Identifying and harnessing these opportunities is the responsibility of the individual operating segments of the Group. Unlike risks, opportunities were not collated and assessed centrally in the reporting year. However, this is planned for the future.

Unless otherwise stated, the opportunities described below refer to 2021 and relate to the DCE and DCS segments.

Growth strategy We are focusing on three core elements as part of our overarching growth strategy: regional growth initiatives with an emphasis on China, expansion of our E-DEUTZ business (including launching the first products), and expansion of the high-margin service business.

By implementing our China strategy, we can benefit more from the expansion of this steadily growing market and thus capture market share, enabling us to increase our unit sales and earnings. The joint venture with SANY and alliances with HORIZON and BEINEI will give us a local production and service network in China.

We intend to continue significantly expanding our high-margin service business. Potential for growth may stem in particular from new service products, special digital offerings, the broadening of our global service network, and the acquisition of dealers. With regard to digitalization in the service business, opportunities are mainly arising from new sales channels such as the online parts shop and from digital tools such as the DEUTZ advanced service tool, the digital service and repair checklist, and condition monitoring. These should help to reduce downtime when our engines are being serviced or repaired, which will strengthen customer loyalty and satisfaction and potentially lead to further efficiency gains. See also 'Strategy and objectives', p. 22 onward.

Market opportunities In our budget for 2021, we have anticipated a continuation of the challenging economic conditions due to the coronavirus pandemic. If the market environment brightens during the year, opportunities will open up in the market.

Research and development Ever-stricter emissions standards and general technological progress are placing huge demands on our entire industry. We are one of the innovation leaders thanks to our many years of experience and our intensive research and development activities in the field of innovative drive systems. At the same time, we are developing our conventional internal combustion engines, which are likely to continue playing a dominant role in the mobile machinery sector over the coming years, in such a way that they can also be fueled with sustainable, **synthetic** fuels and hydrogen.

In addition, we will further strengthen our competitive position through alliances, for example with John Deere Power Systems or between Torqeedo and the technology group ZF Friedrichshafen AG. Through development partnerships, we are also involved in the development of alternative drive systems that run on hydrogen or **e-fuels.** See also 'Research and development', p. 28 onward.

New trends The need for alternative drive solutions is becoming ever greater in view of the ongoing debate about climate change. We firmly believe that diesel technology will continue to be the dominant type of drive in off-highway applications for a long while yet. However, as a result of this debate and our expertise in electrified drive solutions, potential customers who, until now, have invested in their own diesel development work are more willing to instead collaborate with us on the development of alternative drive solutions. This creates a tremendous opportunity for us. In general, the discussion about the transport of the future is opening up good opportunities for us to pursue new and innovative approaches, particularly as part of our E-DEUTZ strategy. See also 'Strategy and objectives', p. 22 and 'Research and development', p. 28 onward.

Moreover, our modular product system gives customers the option of configuring a drive solution suitable for their specific needs from a set of defined parameters such as application segment, power output, emissions characteristics, and technical basis. The system enables us to offer bespoke solutions that reduce carbon emissions, fuel consumption, and overall costs while still responding quickly and flexibly to technological advances and changing market requirements. This includes the possibility of tapping into new markets and customer groups on a much bigger scale.

OUTLOOK

ECONOMIC OUTLOOK

In its most recent forecast, the International Monetary Fund (IMF)[1] once again moderately upgraded its expectations for 2021 and 2022. Its overall assessment remains that the global economy will experience a sustained recovery. Various vaccine approvals should, over the course of this year, lead to the resumption of contact-intensive activities and a general rebound in demand. On this basis, global trade is predicted to increase year on year by around 8 percent in 2021 and by around 6 percent in 2022.

The projected growth in global trade is set to be accompanied by a sharp recovery in commodity prices. Despite this trend, the IMF estimates that inflation will hover at a moderate level of 1.5 percent, assuming that the central banks adhere to their current monetary policy. Companies should therefore still be able to obtain capital on attractive terms over the next two years.

The baseline assumption is that the industrialized countries will recover more quickly than the emerging markets because they will have earlier access to vaccines. The exception remains China, which is likely to continue being the global engine of growth on account of its effective quarantine measures, the strong willingness of its government to spend, and the fact that it has the required central bank liquidity.

GDP growth[1]

YoY change (%)

	2021	2022
Global	5.5	4.2
Industrialized countries	4.3	3.1
Eurozone	4.2	3.6
Germany	3.5	3.1
USA	5.1	2.5
Emerging markets	6.3	5.0
China	8.1	5.6

[1] IMF, 'World Economic Outlook Update', January 2021.

DIESEL ENGINES MARKET

Based on currently available figures, there will be very little difference in the performance of the key industries for sales of DEUTZ diesel engines in 2021. Over the next few years, the markets should gradually recover from the collapse in sales in Europe and North America caused by the coronavirus pandemic in 2020. In China, the hard lockdown at the start of 2020 had a severe impact on economic growth in DEUTZ's customer industries. In the rest of Asia, especially in Korea and Japan, the trend is likely to mirror that in Europe and North America. Overall, therefore, growth in 2021 is likely to be only moderate.

[1] IMF, World Economic Outlook Update, January 2021.

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

Demand for material handling applications, especially forklift trucks, lifting platforms and telehandlers, is set to grow in these regions. The increase in demand in Europe and North America will be driven in particular by the equipment leasing companies investing in their fleets. Early indications suggest that, having dropped by up to 60 percent in 2020, capital spending will start to pick up in 2021 and will gradually return to the levels prior to the coronavirus crisis.

We believe the market situation in agricultural machinery will remain patchy, as the market structures in the main customer markets are all very different. In Europe and North America, where agribusiness tends to be reliant on powerful machinery, growth is expected to be low, but positive. The negative sales outlook for China is due to fact that the decline in unit sales of the **walk-behind tractors** that are typical of the Chinese agricultural sector is likely to be greater than the growth in the segment of more powerful tractors, where demand is rising as a result of the recent agricultural reforms.

DEUTZ customer industries: Forecast for 2021[1]

YoY change in size of market (%)

	Europe	North America	China
Construction equipment	0 – +5	+5 – +10	0 – +10
Material handling	0 – +5	+5 – +10	0 – +10
Agricultural machinery	0 – +5	+5 – +10	–5 – 0

[1] Power Systems Research, OE Link Update Bulletin - Q4 2020, January 2021. VDMA/Agrievolution, Business & Market Development for Agri Machinery World, October 2020.

BUSINESS OUTLOOK FOR 2021

The industries in which DEUTZ's customers operate had already begun to show signs of a gradual recovery in the second half of 2020, which led to a much improved business performance in the fourth quarter compared with the previous quarter. We currently anticipate that this trend will continue in 2021, with customers gradually becoming more willing to invest again. We therefore expect that DEUTZ's business performance for the year will be better overall than its performance in 2020. Nevertheless, it should be borne in mind that a return to pre-crisis levels is still a long way off.

Uncertainty is an inherent feature of the coronavirus pandemic. This makes it impossible to predict the future course of the pandemic and the impact it will have on the global economy and, in turn, on our business performance. No definitive predictions can be made about the pace of the recovery either. The business outlook presented here was made on the basis of the information available at the end of February 2021.

UNIT SALES, REVENUE

Based on the current growth projections for the global economy and the industries that are relevant to DEUTZ, we would expect to sell a minimum of 130,000 engines[1] in 2021, which should push revenue up to at least €1.40 billion. Revenue in the high-margin service business is still forecast to rise to €400 million.

EARNINGS

If unit sales and revenue prove to be as described above, we would expect, at a minimum, to achieve an EBIT margin before exceptional items at break-even level in 2021.

We expect the earnings performance to improve in all segments. In relative terms, the strongest increases are predicted for DEUTZ Compact Engines and the Other segment.

Payment of the final installment of the purchase consideration from the disposal of the Cologne-Deutz site could provide a positive exceptional item in 2021. However, the amount and the date of this payment depend on when the development plan for the site is formally approved by the City of Cologne and so cannot be precisely determined yet. From a current perspective, we assume that a variable payment of approximately €60 million will be made.

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

Based on our earnings guidance, we believe that the return on capital employed (ROCE) before exceptional items in 2021 will also be at break-even as a minimum.

RESEARCH AND DEVELOPMENT EXPENDITURE[1]

Research and development expenditure (after reimbursements) is likely to be in the range of €65 million to €75 million in 2021, in particular due to the further development of our product portfolio and to the implementation of our E-DEUTZ strategy.

CAPITAL EXPENDITURE[2]

We forecast that our capital expenditure (after deducting grants) will be in the range of €75 million to €85 million in 2021 and that most of this amount will be attributable to the DEUTZ Compact Engines segment.

WORKING CAPITAL RATIO, FREE CASH FLOW, AND EQUITY RATIO

For 2021, we expect the average working capital ratio to be around 20 percent to 21 percent, in part because we will continue to hold higher backup component inventories in the current environment.

The anticipated upturn is likely to significantly increase the amount of working capital needed up to the end of the year. Cash outflows will also result from the restructuring program. We therefore expect – despite the anticipated payment of the final installment of the purchase consideration for the sale of land at our former Cologne-Deutz site – that free cash flow will be a negative amount in the low to mid-double-digit millions of euros.

The equity ratio is expected to remain well over 40 percent.

COMMODITIES

Commodities 2021 We assume that in the first quarter of 2021, commodity prices will continue on the upward trajectory that began at the end of 2020. Supply shortages coupled with rising demand in China will contribute to this trend. Increased volatility is expected in 2021 in view of the high level of uncertainty as to how the coronavirus pandemic will develop, together with the impact on the global economy of the outcome of the US elections.

EMPLOYEES

Staffing levels In 2020, as part of the implementation of the Company-wide efficiency program Transform for Growth, DEUTZ initiated a substantial reduction in the number of jobs across the Group with the aim of significantly reducing staff costs. As part of the efforts to minimize the social impact of the planned measures, a voluntary redundancy program running from September 1, 2020 to March 31, 2021 was set up with the objective of reducing the number of employees at the German sites by a total of up to 350. As at February 25, 20201, a total of 273 employees had taken up the voluntary redundancy program. See also 'Transform for Growth', p. 25.

The plan is also to manage short-term peaks in demand for labor as a result of unexpected increases in production volume by offering flexible employment conditions in the shape of fixed-term and temporary employment contracts.

Supplementary collective pay agreement In mid-December 2020, the IG Metall labor union and the employers' association agreed on a supplementary collective pay agreement with a three-year term. As well as a commitment by the Company to protect jobs and the sites in Cologne, Herschbach, and Ulm, the agreement involves certain undertakings by employees in order to secure the future of the sites, including an unpaid increase in working hours during the term of the agreement. See also 'Transform for Growth', p. 25.

[1] Research and development expenditure constitutes actual spending on R&D projects. It differs from the research and development costs recognized in the income statement in that development expenditure that can be capitalized is deducted and amortization on completed development projects is added.
[2] Capital expenditure on property, plant and equipment (including right-of-use assets in connection with leases) and on intangible assets (excluding capitalization of research and development expenditure).

OUTLOOK FOR 2023 / 2024

In spite of the uncertainty surrounding the pace of global economic recovery as a result of coronavirus, DEUTZ is confirming its current guidance for 2023/2024, which 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. The Company changed its time horizon from 2022 to 2023/24 at the end of November 2020 to reflect the economic impact of the coronavirus pandemic.

Ongoing internationalization and the expansion of the high-margin service business, together with our technology-neutral approach to the development of our portfolio, will remain key growth drivers. The efficiency program launched at the beginning of 2020, the aim of which is to contain costs while at the same time raising efficiency, will further underpin our profitability going forward.

In connection with the adjustment of its original guidance for 2022, DEUTZ has also revised the target it set out in 2018 as part of its E-DEUTZ strategy to generate between 5 percent and 10 percent of consolidated revenue from electric drive systems in 2022. The expectation of when this target will be achieved has now also been shifted to 2023/2024, primarily because of the postponement of various electrification projects due to coronavirus.

Further information on strategy and objectives and the 'Transform for Growth' efficiency program can be found on pages 25 onward.

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.

SEPARATE COMBINED NON-FINANCIAL REPORT

ABOUT THIS NON-FINANCIAL REPORT

Scope and reporting period The content of this separate combined non-financial report pursuant to sections 289b (3) and 315b (3) of the German Commercial Code (HGB) ('non-financial report') covers both the parent company DEUTZ AG and the DEUTZ Group. Unless indicated otherwise, all quantitative and qualitative disclosures pertain to the Group as a whole ('DEUTZ'). Disclosures that relate only to DEUTZ AG are labelled accordingly in this report. The reporting period is the 2020 financial year, i.e. the period January 1 to December 31, 2020.

Report content and framework In accordance with section 315c in conjunction with sections 289c to 289e HGB, this non-financial report summarizes the key topics identified as a result of the materiality assessment of environmental matters, treatment of employees, social responsibility, respect for human rights, and measures to combat corruption and bribery. The content of the report is based in part on the underlying aspects of certain criteria of the **German Sustainability Code** and in particular on criteria 1 (strategy), 2 (materiality), 3 (objectives), 5 (responsibility), 6 (rules and processes), 7 (control), 13 (climate-relevant emissions), 14 (employee rights), 17 (human rights), 18 (corporate citizenship), and 20 (conduct that complies with the law and policy). See also 'Materiality assessment', p. 72 onward.

This non-financial report makes reference to further information provided elsewhere in the annual report. References to disclosures outside the scope of the consolidated financial statements, the annual financial statements of DEUTZ AG, and the combined management report for 2020 do not form part of the non-financial report.

The extent to which the outbreak of the coronavirus pandemic in 2020 had any impact on the topics that have been defined as material and the related KPIs is described in the individual chapters below.

Risks pursuant to section 289c (3) nos. 3 and 4 HGB Using the **net method**, no material risks were found in relation to DEUTZ's own business activities, business relationships, products, or services or to aspects relating to the key topics pursuant to section 289c (3) nos. 3 and 4 HGB that are very likely to have a serious impact on those aspects subject to reporting requirements now or in the future. Fundamental information on risks and opportunities is presented in the combined management report, p. 59 onward.

Content review On behalf of the Supervisory Board of DEUTZ AG, the non-financial report was voluntarily submitted for an external review with limited assurance pursuant to ISAE 3000 (Revised). Details of the limited assurance engagement and the findings of the review see p. 93 onward.

BUSINESS MODEL AND CORPORATE PHILOSOPHY

DEUTZ is one of the world's leading manufacturers of innovative drive systems. The Company was founded in 1864 and has around 4,600 employees worldwide. Its core competencies are the development, production, and distribution of innovative drive solutions with a power output of up to 620 kW for **off-highway** applications. The current 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. We also offer a comprehensive range of services through more than 800 sales and service partners in over 130 countries. Further information see 'Combined management report', p. 22 onward.

Corporate philosophy

Vision
DEUTZ builds the most advanced drive systems for professionals, providing outstanding performance to shape the world.

Mission
Through pioneering spirit and innovation, DEUTZ shaped the industrial revolution. Now, we are driving the next revolution – delivering efficiency, performance and sustainability for our customers.

MATERIALITY ASSESSMENT

The basis for the DEUTZ Group's sustainability activities is provided by the materiality assessment, which is carried out by the Company's Sustainable Development Committee (SDC) taking account of the Company's business activities and corporate philosophy. The materiality assessment must be approved by the Board of Management.

Business relevance is generally evaluated internally by the members of the SDC. In 2020, DEUTZ had intended to conduct a survey of external stakeholders too, and to use the survey findings in its review of the materiality assessment. The survey was put on hold due to the outbreak of the coronavirus crisis and the resulting impact on business activities, such as the introduction of short-time working. See 'HR management', p. 80 onward. However, in order to still take account of external stakeholders' views, DEUTZ compared the key topics defined in the previous year's materiality assessment (and the related key performance indicators) against the principles of the UN Global Compact and the sustainable development goals of the United Nations. This enabled it to identify any necessary adjustments. This process was based on the assumption that the aforementioned initiatives reflect the topics deemed by society to be requirements for companies and are regarded globally as important to sustainable development. The comparison did not focus on whether the defined key topics covered all of the content of the initiatives. Instead, it simply looked at whether they reflected the content. Based on the outcome of the comparison, DEUTZ confirmed the findings of its 2019 materiality assessment and therefore continues to regard the following six topics as key to understanding the development, performance, and position of the Group and the impact of its business activities on the non-financial aspects defined in accordance with the HGB.

The SDC did not see any need for adjustment in view of the outbreak of the coronavirus pandemic and its impact. Material topics in connection with aspects defined as non-financial under HGV were not identified.

The six topics are product stewardship, HR management, occupational health and safety, corporate governance and compliance, supplier management, and environmental and climate protection.

The topic of **corporate citizenship** falls under the category of 'social responsibility' in the HGB. In this report, DEUTZ provides information on this topic and its activities in this area on a voluntary basis.

SUSTAINABILITY STRATEGY

In 2019, DEUTZ developed its first groupwide sustainability strategy, drawing on the results of the materiality assessment at that time. The aim of the strategy is to link sustainability matters more closely with the corporate strategy and thereby present a more holistic picture of the Group's performance through the resulting incorporation of non-financial aspects. The name of the strategy, Taking Responsibility, describes our objective of striving for commercial success while increasing the focus on fulfilling our corporate, social, and environmental responsibilities.

After identifying the sustainability topics of material relevance, DEUTZ defined the corresponding key performance indicators and used them to set qualitative and quantitative targets for 2023. Potential action plans for achieving the targets were also drawn up. Since then, DEUTZ has been progressively implementing the action plans and expanding them on an ongoing basis. In 2020, DEUTZ added one key performance indicator – waste for disposal – to the quantitative targets for the topic of environmental and climate protection. All of the quantitative targets in the sustainability strategy are brought together in DEUTZ's 'Sustainability Vision' for 2023.

DEUTZ's Sustainability Vision for 2023 at a glance

Key topics	Corresponding KPIs	Targets for 2023
Product stewardship	Share of consolidated revenue attributable to E-DEUTZ products	5–10 %[1]
HR management	Engagement[2]	78 %
	Enablement[2]	69 %
	Rate of staff turnover[3]	5–10 %
	Proportion of women in the workforce[4]	> 10 %
	Proportion of women in management positions[5]	> 20 %
	Ratio of trainees to total employees[6]	> 1.5–2 %
Occupational health and safety	Recordable Incident Rate[7]	7
Corporate Governance & Compliance	Proportion of workforce to have completed compliance training[8]	> 95 %
Supplier management	Proportion of new suppliers to have had their compliance with the supplier code of conduct verified	90 %[9]
	Number of suppliers that have passed business partner compliance checks	90 %[10]
	Proportion of suppliers assessed against sustainability criteria	50 %[11]
Environmental and climate protection	CO_2 emissions from production sites (tonnes CO_2e)[12]	–20 %[13]
	CO_2 emissions from production sites per manufactured engine (kg CO_2e)[14]	–20 %[13]
	Nitrogen oxide emissions from production sites per manufactured engine (kg)[15]	–3 %[16]
	Particulate emissions from production sites per manufactured engine (g)[15]	–3 %[16]
	Waste for disposal	–10 %[16]

[1] Target for 2023/2024.
[2] DEUTZ measures the levels of engagement (motivation) and enablement (empowerment) in its workforce (all employees within the Group including staff on fixed-term contracts but excluding temporary workers) using a groupwide employee survey, which it first carried out in 2019 and will repeat every three years going forward.
[3] Relates to all employees within the DEUTZ Group, excluding staff on fixed-term contracts and temporary workers. The calculation includes both resignations and dismissals.
[4] Including staff on fixed-term contracts but excluding temporary workers.
[5] Including staff on fixed-term contracts but excluding temporary workers; the second level below the Board of Management, i.e. all female managers who report directly to a manager in the top level of senior management and have managerial responsibility.
[6] Number of trainees at the sites in Cologne, Ulm, and Herschbach (Germany) in relation to the number of employees in Germany, including staff on fixed-term contracts but excluding temporary workers, Torqeedo, and Futavis.
[7] For the production sites in the DEUTZ Group, excluding joint ventures. The recordable incident rate (RIR) is the number of reportable accidents at work per year per one million hours worked. An accident is deemed reportable if it occurs during working hours on the Company's premises while an insured activity is taking place and results in an absence of more than three calendar days. The day of the accident itself is not counted, but weekends are included if a medical certificate has been issued by an occupational health practitioner. Working hours are defined as the recorded or calculated actual time spent working and/or traveling by the employees. The working hours of permanent employees are counted, as are those of temporary workers, employees with fixed-term contracts, part-time staff, interns, and student workers.
[8] Here, the term administrative employees includes all individuals who are employed by the DEUTZ Group, including its foreign affiliates, as at December 31 of any given year and who are integrated into the Group's IT infrastructure, have access to a PC, and speak Chinese, English, French, German, Italian, Russian, or Spanish as the e-learning modules are available in these languages only. It excludes employees who left the Company during the year, were on parental leave, or were absent for more than 50 percent of the year due to long-term sick leave.
[9] 90 percent of the suppliers brought on board each year.
[10] Relates to existing suppliers with whom DEUTZ's purchasing volume for the prior year exceeded €0.5 million.
[11] 50 percent of the top 150 suppliers as measured by DEUTZ's purchasing volume in the prior year.
[12] CO_2e = carbon dioxide equivalents; CO_2 emissions from the production sites of the DEUTZ Group excluding joint ventures. CO_2 figures are reported in accordance with the Greenhouse Gas Protocol and are determined by multiplying the energy consumed by the relevant emissions factor.
[13] Base year 2017.
[14] Excluding joint ventures. CO_2e = carbon dioxide equivalents; CO_2 figures are reported in accordance with the Greenhouse Gas Protocol. The 'emissions per engine' figure is calculated by dividing total emissions by the number of engines made. CO_2 reporting covers Scope 1 (CO_2 emissions from diesel, natural gas, LPG, heating oil, and CNG caused by combustion in our own facilities) and Scope 2 (CO_2 emissions relating to purchased energy (e.g. electricity, district heating)). Only internal combustion engines and electric motors are counted, i.e. no other components such as batteries, gearwheels, or conrods for non-DEUTZ engines.
[15] Excluding joint ventures; the figures 'nitrogen oxide per manufactured engine' and 'particulate emissions per manufactured engine' are calculated by dividing the total emissions of each from test bays by the number of engines made. Only internal combustion engines are counted, i.e. no electric motors and no other components such as batteries, gearwheels, or conrods for non-DEUTZ engines. Electric motors do not produce nitrogen oxide emissions or particulate emissions.
[16] Base year 2019.

UN GLOBAL COMPACT AND SUSTAINABLE DEVELOPMENT GOALS

At the end of 2020, we began the process of joining the UN Global Compact (UNGC) to underline our overarching objective of striving for commercial success while increasing the focus on fulfilling its corporate, social, and environmental responsibilities. We have thereby committed ourselves to supporting the ten principles of the Global Compact, which relate to human rights, labor, the environment, and anti-corruption, and to promote them within our sphere of influence. We have also undertaken to take account of the UNGC principles in any updates to the groupwide sustainability strategy, in particular by considering the UN's sustainable development goals. The 17 sustainable development goals (SDGs) of the United Nations are regarded as the most important objectives in the context of a global sustainability policy and thus provide guidelines for the global sustainable development of society, culture, and the economy.

As an international company that operates within global value chains, DEUTZ too has an influence on economic, environmental, and social developments. When the SDC reviewed the materiality assessment in 2020, it evaluated the extent to which – and through which targets defined in the sustainability strategy – DEUTZ believes it is already making a positive contribution to certain SDGs or aspects of them. The SDC's evaluation identified six SDGs. Examples are provided below of the measures, targets, and projects with which DEUTZ is making a contribution to these goals. Negative influences that the Company's business activities may have on the SDGs were not evaluated.

Goal 3 | Good Health and Well-Being – To ensure the health and well-being of its employees in the workplace, DEUTZ complies across the Group with the statutory requirements on occupational health and safety that apply from country to country. This involves implementing measures that are designed to ensure that employees are exposed to as few dangers as possible at work and to minimize the risk of accidents. The Company also offers its employees an extensive range of healthcare and sports programs and has provided the option of flexible working time models, such as pre-retirement part-time employment. See also 'Occupational health and safety', p. 83, and 'HR management', p. 80.

Goal 5 | Gender Equality – We are supporting gender equality through our targets for increasing the proportion of women in senior management and in the workforce as a whole. See also 'HR management', p. 80.

Goal 8 | Decent Work and Economic Growth – We help to secure decent working conditions, both directly and indirectly, by respecting all human rights within our Company and through the steps that we have taken to monitor and encourage the safeguarding of human rights in our supply chain. See also 'HR management', p. 80 onward, 'Occupational health and safety', p. 83 onward, and 'Supplier management', p. 87.

Goal 9 | Industry, Innovation and Infrastructure – We are proactively driving technological progress in the off-highway and marine sectors, and thereby helping to combat climate change, by developing innovative engines based on alternative drive systems – some of which are carbon-neutral – and steadily reducing the fuel consumption of our traditional internal combustion engines. We support innovations and innovativeness through our annual innovation prize, the Nicolaus August Otto Award, which encourages innovative ideas in the fields of alternative drive systems, transportation, energy efficiency, innovative technology, and pioneering research. See also 'Environmental and climate protection', p. 89, and 'Corporate citizenship', p. 79.

Goal 12 | Responsible Consumption and Production – We extend the lifecycle of our products and are thus making a contribution to sustainable consumption by offering reconditioned engines and spare parts through our Xchange program. At the same time, we are making our production more sustainable, for example by taking steps to reduce our use of resources or to use them more efficiently. See also 'Product stewardship', p. 77, and 'Corporate citizenship', p. 79.

Goal 13 | Climate Action – By continually refining our innovative portfolio of drive systems and implementing our electrification strategy, we are playing an active part in shaping a sustainable future for off-highway and marine applications and thereby contributing to the successful decarbonization of the economy. We also contribute to the fight against climate change through our targets aimed at lowering our emissions of CO_2, particulates, and nitrogen oxide and reducing the volume of waste at our production sites. See also 'Product stewardship', p. 77, and 'Environmental and climate protection', p. 89.

Having signed up to the UN Global Compact, DEUTZ will publish an annual communication on progress from 2021 onward. In this report, it will describe the measures taken and initiated in order to implement the UNGC principles and provide information on its achievement of the defined key performance indicators and qualitative targets.

DEUTZ-Sustainable Development Committee (SDC)
Responsibilities and reporting structure

Member of the Board of Management responsible for sustainability — Supervisory Board
Dr.-Ing. Frank Hiller

Sustainable Development Committee (SDC)

Strategy Development
Quality Management | Investor Relations

Non-Financial Reporting / Sustainability Communications
Investor Relations

Topic-specific responsibilities at DEUTZ AG level

Product stewardship	Corporate Citizenship	Personnel development	Occupational health and safety	Corp. Governance & Compliance	Supplier management	Environmental & climate protection
Head of Global Product Management	Head of Corporate Communications & Investor Relations	Head of Human Resources	Head of Quality, Safety, Health and Environment	Chief Compliance Officer	Head of Sustainability and Compliance in Purchasing	Head of Quality, Safety, Health and Environment

Local representatives at the subsidiaries

SUSTAINABILITY ORGANIZATION AND MANAGEMENT

Sustainability is anchored at senior management level in the DEUTZ Group, and overall responsibility lies with the Chairman of the Board of Management. The SDC, which comprises the heads of the relevant departments and the individuals responsible for the key sustainability topics, provides the information that is used as the basis for making decisions related to corporate sustainability in the DEUTZ Group. Guided by the Group's Investor Relations function and the Quality Management team, the SDC sets non-financial targets, creates action plans for achieving them, and discusses the continuous improvement of sustainability efforts across the Group at regular intervals. Responsibility for implementing and monitoring strategic initiatives lies either with the relevant departmental heads or the individuals nominated by them. In view of the fact that the DEUTZ Group is highly decentralized, they are supported in their work by local representatives at the subsidiaries.

As part of the preventive risk management approach, internal monitoring and reporting to the Board of Management on the implementation status of the sustainability strategy take place each quarter. The objective is to identify risks that might jeopardize the achievement of the targets at an early stage and to modify the action plan if necessary. See also 'Corporate governance and compliance', p. 85.

NON-FINANCIAL REPORT

DEUTZ has divided its sustainability activities into three fields of action to which the relevant key topics are assigned: social responsibility, corporate responsibility, and environmental responsibility. This non-financial report has the same structure.

Field of action	Key topics	Aspects under the HGB
Social responsibility	**Product stewardship**	▪ Social responsibility
	Corporate citizenship[1]	▪ Social responsibility
Corporate responsibility	**HR management**	▪ Treatment of employees
	Occupational health and safety	▪ Treatment of employees
	Corporate governance and compliance	▪ Respect for human rights ▪ Measures to combat corruption and bribery
	Supplier management	▪ Respect for human rights ▪ Measures to combat corruption and bribery ▪ Environmental matters
Environmental responsibility	**Environmental and climate protection**	▪ Environmental matters

[1] Based on the results of the materiality assessment conducted in 2020, the topic of corporate citizenship has lower relevance for the Company and its stakeholders. In this report, DEUTZ reports on its activities in this area on a voluntary basis.

SOCIAL RESPONSIBILITY

PRODUCT STEWARDSHIP

An ever-growing global population, limited natural resources, and the steady march of climate change present fundamental challenges for the future of mobility, not only in the on-highway sector but also in the off-highway and marine sectors. As a leading manufacturer of innovative drive solutions, DEUTZ believes it has a responsibility to society to make products that move us toward a future of locally carbon-neutral off-highway vehicles and marine vessels, thereby contributing to the prevention of climate change.

The ongoing development of our drive portfolio is heavily influenced by legislation to reduce emissions and limit noise pollution. The DEUTZ Group's development activities are focused on bringing its engines into line with current and future emissions standards, such as **EU Stage V** and **China IV.** To establish whether an engine meets the legal requirements, it has to undergo mandatory certification processes that are carried out by bodies such as Germany's Federal Motor Transport Authority or equivalent foreign authorities like the US Environmental Protection Agency.

With regard to conventional diesel-powered internal combustion engines, DEUTZ continually assesses older engine series that are coming to the end of their lifecycle, particularly if they cannot be converted to meet future emissions standards. This means that engines which do not comply with current standards or cannot be upgraded to achieve compliance will be progressively withdrawn from the portfolio.

In view of the fact that different applications require different drive solutions, DEUTZ strives to develop its engine portfolio with an open mind for new technologies. Our product range comprises the latest diesel technology as well as gas, hybrid, electric, petrol, and hydrogen drives, as well as solutions that use alternative fuels.

E-DEUTZ strategy The E-DEUTZ program, initiated in 2017, is aimed at creating a locally carbon-neutral product portfolio that includes a scalable range of hybrid and all-electric drives for customers' specific requirements in the off-highway and marine sectors. Fully electric drive systems are locally carbon-neutral, whereas hybrid systems reduce total carbon emissions per application by **downsizing** engine capacity while maintaining overall system performance.

The acquisition of Futavis at the end of 2019 enabled DEUTZ to expand its know-how in the crucial field of battery technology and to supplement Torqeedo's existing expertise in the field of electric drives with a high-voltage battery management system. As a development services provider for battery management hardware and software, Futavis has extensive technical capabilities in electronics, software, battery technology, and battery testing, and in ensuring functional safety.

The system and battery design work and the building and testing of prototypes within the DEUTZ-Futavis-Torqeedo group of companies generally takes place in Cologne, while the battery management system work (including battery electronics) is carried out at the Futavis site. The part of the development team that is based at Torqeedo is responsible for the certification of electric motors and performance electronics components, and for analyzing and approving battery modules that have been sourced externally.

E DEUTZ® - Roadmap

ALL-ELECTRIC

HYBRID-ELECTRIC

360 volt base drive system

for compact applications up to 75 kW in ground support equipment, construction equipment, and agriculture

48 volt base drive system

for smaller applications below 25 kW in construction equipment, horticulture/agriculture, material handling equipment, and working platforms

360 volt hybrid system

for mid-range applications up to 130 kW in ground support equipment, construction equipment, and agriculture

48 volt hybrid system

for small applications below 75 kW in construction equipment, horticulture/agriculture, material handling equipment, and working platforms

2020 — End of 2023

In the coming years, the E-DEUTZ development team working from multiple sites will focus on developing four basic drive train designs (some all-electric and some hybrid) for customer applications in the low and medium power output range, for example ground support equipment, construction equipment, and agricultural machinery. The aim is for these solutions to reach market maturity by the end of 2023. This means that DEUTZ is evolving from being a demonstrator towards full-scale series production. Step one will be the introduction of an all-electric 360-volt drive system in the market from 2021. In 2020, a prototype agreement was concluded with a customer and an initial drive system prototype has been delivered. The agreement covers a custom-made 42 kWh lithium-ion battery that was tested by the TÜV product standards regulator and passed key functional and safety tests in accordance with the ECE R100 directive, which defines safety technology requirements for electric-powered road vehicles. In the second step, a 48-volt base drive train, a 360-volt hybrid **powerpack**, and a 48-volt hybrid powerpack will be introduced by the end of 2023.

In addition, DEUTZ employees sketched out the idea of a mobile E-DEUTZ charging station for electric-powered construction vehicles at the DEUTZ pitch event in 2020. An interdisciplinary team subsequently developed a technical concept for such a charging station and implementation of the project began in collaboration with a key customer at the end of 2020.

The various departments involved provide regular updates to the Board of Management on the progress of development in the E-DEUTZ program. Action plans for achieving individual targets are drawn up on an ongoing basis, for example for the launch of customer projects.

Before the adoption of the sustainability strategy in the 2019 financial year, DEUTZ had already set itself the target of raising the proportion of consolidated revenue that is generated from electric drive systems to between 5 and 10 percent by 2022. In 2020, this target (first formulated in 2018) was amended to reflect that its achievement is now expected in 2023/2024 due to coronavirus. In addition, DEUTZ has extended its method of calculating the E-DEUTZ share of revenue to include not only electric drive systems, i.e. electric motors, but also E-DEUTZ components and services as well as batteries from the DEUTZ subsidiary Futavis, which was acquired at the end of 2019.

DEUTZ Group: E-DEUTZ share[1] of consolidated revenue

(%)

	2020	2019[2]
E-DEUTZ share	3.2	1.7

[1] From 2020, the calculation of the proportion of revenue attributable to E-DEUTZ will include not only electric motors but also E-DEUTZ components and services as well as batteries from DEUTZ subsidiary Futavis.

[2] This figure has been adjusted retroactively in accordance with the extended calculation method. Because Futavis was acquired in October 2019, only its revenue for the fourth quarter of 2019 is included.

In 2020, the share of consolidated revenue attributable to E-DEUTZ products amounted to 3.2 percent. The sharp year-on-year rise was due to the significant fall in consolidated revenue as a result of coronavirus combined with a small year-on-year increase in revenue from E-DEUTZ products.

Innovative internal combustion engines In the years ahead, internal combustion engines will continue to predominate for mobile machinery, which is why our activities will remain focused not only on electrification but also on the development of innovative internal combustion engines that can run on a carbon-neutral basis by using sustainable energy sources. In addition to natural gas, which produces markedly lower CO_2 emissions due to the more favorable bonding of hydrocarbon compounds, an example of a sustainable energy source is hydrogen (H_2), an element with a high energy density that can be used as a fuel for carbon-neutral internal combustion engines. 'Green' hydrogen, which is generated from solar, hydro, or wind power, offers the possibility to convert energy from renewable sources into a storable gas for efficient use.

Back in 2018, a hydrogen-based prototype based on a 7.8 liter DEUTZ engine was developed in partnership with Munich-based start-up KEYOU. Following the signing of a memorandum of understanding about the expansion of our established activities and the existing cooperation in 2019, DEUTZ and KEYOU realized a joint preliminary development project in 2020 which achieved an encouraging increase in the power output of a hydrogen-fueled engine. In addition, DEUTZ initiated the pilot project for an H2 genset, i.e. a hydrogen-based power generation unit. It is scheduled to be presented in the second half of 2021.

Modular product system DEUTZ gives its customers the option of individually configuring their ideal drive solution from a set of product modules, based on defined parameters such as application segment, power output, emissions characteristics, and technical basis. The system, called the DEUTZ Advanced Configurator, enables us to offer bespoke solutions that reduce carbon emissions, fuel consumption, and overall costs while still responding quickly and flexibly to technological advances and changing market requirements.

Environmentally responsible and resource-efficient services – DEUTZ-Xchange and professional diesel particulate filter cleaning DEUTZ believes that it has a responsibility to continually reduce the fuel consumption and emissions of its engines and to develop carbon-neutral drive solutions in order to play its part in mitigating climate change. But the Company goes further than that: It also offers its customers a variety of services that help to reduce pollution and the use of resources.

One example is the provision of reconditioned engines and spare parts under the DEUTZ Xchange program. Old engines are professionally reconditioned and wearing parts are replaced with genuine DEUTZ components. At the end of the process, the engines are as good as new and identical to the original ones in every respect, except that they benefit from technological progress because the latest expertise from the manufacturing of new engine parts is incorporated during reconditioning. This extends the lifecycle of engines and provides a cost-effective and, above all, environmentally friendly alternative to purchasing a brand-new engine.

The cleaning of diesel particulate filters (DPF) is another example of the environmentally responsible and resource-efficient services we offer. The main function of the DPF is to filter the exhaust gas and capture any residual ash from the engine's combustion process to prevent it from being released into the atmosphere. But the absorption capacity of particulate filters is limited, meaning that these filters need to be replaced or professionally cleaned on a regular basis. The DPF is cleaned using an environmentally friendly method that involves thermal treatment and subsequent removal of ash residue using compressed air. The DPF's effectiveness in the **exhaust aftertreatment** process can thus be restored without any need to use chemicals and the engine can continue to operate at optimum fuel consumption and emission levels. The typical useful life of the DPF is significantly extended by this process and filter replacements, which would normally be required regularly due to issues such as clogging, are needed much less frequently.

Both the DEUTZ Xchange program and the professional diesel particulate filter cleaning are also intended to make a positive contribution to sustainable consumption and production in the spirit of the United Nations' twelfth sustainable development goal.

CORPORATE CITIZENSHIP

In its role as a corporate citizen, DEUTZ endeavors to make a positive and sustainable contribution to society and to the regions in which it operates. The emphasis is on the promotion of education, innovation, and environmental projects. At the end of 2019, DEUTZ drew up a groupwide donation and sponsorship strategy to provide a framework for its activities in these areas. A related organizational policy was issued in the first half of 2020. As well as defining responsibilities and decision-making processes, this policy sets out the principles for corporate citizenship activities and aims to ensure their effectiveness and legal integrity – particularly with regard to potential conflicts of interest – by laying down binding rules.

DEUTZ Business School DEUTZ regards education as the foundation of a sustainable society. This is why DEUTZ Spain, for example, started work on the DEUTZ Business School in the Spanish town of Zafra in 2017. As well as providing targeted support for economic development in this region, where such educational institutions are rare, the objective of the school is to equip young people with all the knowledge and skills they need to meet current and future requirements of business and of the labor market. In addition to university lecturers, managers from DEUTZ Spain are also on hand to share and spread their knowledge for the benefit of the Zafra site and beyond. The programs on offer are geared toward the needs of companies in all sectors and focus on dual vocational training, university courses in lean management, language courses with official certification, and continuing professional development.

Nicolaus August Otto Award DEUTZ regards innovation and a pioneering spirit as the driving force behind progress of any kind, and nowhere is this reflected more than in the corporate values that are put into practice across the Group. To support advances in society and help to proactively address global challenges such as the steady march of climate change, DEUTZ looks to promote innovative ideas in the fields of alternative drives, transport, energy efficiency, cutting-edge technology, and future-focused research, while at the same time recognizing the visionaries of today. In 2019, to fulfill this objective, the Company launched the Nicolaus August Otto Award. This annual innovation award, endowed with prize money of €30,000, is named for the founder of DEUTZ AG and co-inventor of the four-stroke engine.

The Nicolaus August Otto Award for 2020 was presented to Professor Wolfgang Reitzle in recognition of his work in the field of hydrogen drives and fuel cell technology. Reitzle believes that hydrogen drive systems are a realistic alternative to today's internal combustion engines and battery-powered motors and that they can pave the way for zero-emission transport and thus play a key part in the transport mix needed to achieve the EU's climate protection targets for 2030.

CORPORATE RESPONSIBILITY

HR MANAGEMENT

At the end of 2020, the DEUTZ Group employed a total of 4,586[1] people. They are based in more than 15 countries and therefore subject to different local conditions and requirements. The DEUTZ Group's human resources organization is essentially decentralized. This gives the subsidiaries the strategic and organizational freedom they need to tailor their HR management activities to their specific needs and thus respond flexibly to local circumstances.

In 2019, implementation of an SAP-based IT environment for HR got under way with the aim of centralizing HR management – where appropriate – and digitalizing processes. The first stage of the implementation took place in 2020 and involved standardizing the format of employee master data at the sites of DEUTZ AG. The next biggest sites – those in Spain and the USA – are to be connected to the system in the medium term.

Under its sustainability strategy, DEUTZ has set various targets for HR management that – unless indicated otherwise below – relate to the entire Group, despite the largely decentralized organizational structure.

Impact of the coronavirus crisis on staffing levels The outbreak of the coronavirus pandemic had a major impact not only on the Group's operating performance but also on other areas such as staffing levels. In order to take account of the lower capacity utilization resulting from the coronavirus-related collapse in demand, DEUTZ decided to freeze hiring, to only continue fixed-term contracts in the departments where there was evidence of need, and, wherever possible, to discontinue the use of all temporary workers in the production and assembly operations. At the end of March 2020, an application was also made for Company-wide short-time working at all German sites.[2] This was approved for Cologne, Herschbach, and Ulm until December 2020.

In light of the aforementioned developments, the motivation and empowerment of employees took on particular significance in 2020. The relevant section of this chapter sets out which measures were adopted in this regard. The restrictions that were put in place to minimize the risk of infection from coronavirus are detailed on page 84 of this non-financial report in the chapter 'Occupational health and safety'.

Personnel adjustment as part of the 'Transform for Growth' efficiency program At the start of the reporting year, before the outbreak of the coronavirus pandemic, DEUTZ launched a Company-wide efficiency program, 'Transform for Growth'. The aim is to generate gross annual cost savings of around €100 million from the end of 2022 onward in order to maintain the Company's long-term competitiveness, with 2019 serving as the base year for comparison. See also 'Transform for Growth', p. 25.

As well as adjusting operating costs, a large part of the savings are to be achieved by reducing staff costs. This will involve making a substantial reduction in jobs across the Group. The top priority is to minimize the social impact of the reduction for all employees. In this context, DEUTZ reached agreement with the employee representatives on a key issues paper in the third quarter of 2020. It includes a voluntary redundancy program for 350 employees at the German sites, the establishment of an interim employment company, and a social compensation plan. The interim employment company takes on employees who have left the Company under the program and supports them for a period of no longer than twelve months in finding a new job, for example through training. While at the interim employment company, each former employee receives a salary consisting of a short-time working allowance for interim employment. Participation in the voluntary redundancy program also requires the approval of the Company. In imposing this requirement, DEUTZ wants to make sure that we do not lose workers with the skills and knowledge that we need.

The offer to participate in the voluntary redundancy program runs from September 1, 2020 to March 31, 2021 and had been taken up by a total of 171 employees by the end of 2020.

After reaching agreement on the aforementioned key issues paper, the IG Metall labor union and the employers' association agreed on a supplementary collective pay agreement with a three-year term. As part of this agreement, employees made certain undertakings in order to secure the future of the German sites, including unpaid increases in working hours during the term of the agreement.

In 2020, restructuring costs totaling €31.9 million were recognized. These costs mainly encompass severance payments and other costs that are directly related to the restructuring. For the relevance of this to the consolidated financial statements, see the notes to the consolidated financial statements, p. 120.

[1] The number of employees is expressed in FTEs (full-time equivalents).
[2] See the ad hoc disclosure dated March 25, 2020.

Representation of interests and codetermination In the DEUTZ Group, codetermination matters, i.e. matters in which the workforce has a say in decision making, are also essentially managed on a decentralized basis due to local differences. All pay-scale employees in Germany, who make up the majority with approx. 92 percent of the Group's workforce, are subject to the collective pay agreement of the metalworking and electrical engineering industry and their interests are represented by the works councils at the individual sites. The works councils get involved in all employee-related matters at DEUTZ AG, for example regarding recruitment, remuneration, reassignment, and dismissal, in accordance with the applicable collective pay agreements and laws. The objective is to agree mutually acceptable rules and arrangements for the matters at hand. An elected Senior Staff Committee represents the interests of senior managers. Both the works council and senior managers also appoint representatives to the Company's Supervisory Board, thereby exercising their right of codetermination.

Internal communications At the end of 2019, DEUTZ added to its existing communication channels, such as the intranet and the regular myDEUTZ employee magazine, by launching an employee app called DEUTZ Mobile. The new app gives access to a wide range of information about DEUTZ and can be downloaded by all employees of DEUTZ AG on their personal or work smartphones and/or tablets. DEUTZ Mobile was originally only available in German for employees of DEUTZ AG, but an English-language version was rolled out for our site in Spain at the start of 2021 and an English-language version is also due to be rolled out in China later in the year.

DEUTZ also arranges other types of event, such as works meetings and other information events, to establish dialog with the workforce on important matters, for example the implementation of the efficiency program. The coronavirus pandemic meant that DEUTZ made greater use of video messages in the reporting year.

Employee motivation and empowerment A company's success and capacity for innovation depends to a large extent on its employees' motivation and satisfaction (engagement) and empowerment (enablement), and not just on their ability to do their job. Consequently, DEUTZ endeavors to provide its employees with a working environment that, at every stage of their working life, motivates and empowers them while, at the same time, ensuring the availability of skilled workers over the long term. The measures offered by DEUTZ AG in this context include flexible working time models to enable employees to balance work with family life, a comprehensive training program, the agreement of individual targets, and a wide variety of healthcare and sports programs.

During the reporting year, employee motivation was a hugely important issue in view of the coronavirus crisis and the subsequent introduction of short-time working at the end of March 2020. As a sign of its appreciation for the continued commitment shown by employees during this challenging time, DEUTZ AG offered free lunches to employees at its main site in Cologne for several weeks. In addition to topping up the short-time working allowance, DEUTZ gave the option of working from home to those employees whose role enabled them to do so and who had the necessary equipment, in particular to enable them to balance work with childcare during the national lockdowns.

One of the ways of motivating the workforce to make a proactive contribution to the success of the Company is the bonus-driven ideas management scheme. It allows any employee at DEUTZ AG to put forward ideas for discussion, such as how to make the working environment more efficient or how to optimize existing processes, and helps to foster a culture of innovation in the Company. This can not only improve employees' motivation but also give them a greater sense of empowerment, for example because they can suggest ways to improve their working conditions. A total of 573 ideas were submitted in 2020. The DEUTZ innovation center at the main site in Cologne, where interdisciplinary teams apply agile working methods, is the result of a successful idea submitted by employees in previous years.

DEUTZ Corporate Values

DEUTZ firmly believes that working conditions play a key part in employees' motivation levels and, ultimately, their productivity. The Company therefore attaches a high priority to maintaining a corporate culture that is shaped by team spirit, a sense of responsibility, and respect, that shuns behavior such as discrimination, bullying, and harassment, and that fosters a culture of innovation. This corporate culture is encapsulated in the five corporate values of the DEUTZ Group.

DEUTZ's groupwide code of conduct sets out rules on appropriate behavior in the workplace and other matters. It must be adhered to by all employees. See also 'Corporate governance and compliance', p. 85.

Employee survey In 2019, DEUTZ carried out a groupwide employee survey for the first time in order to measure the levels of engagement and enablement in its workforce. The aim is to use the resulting insights to define specific measures, implementation of which can motivate and empower employees to put their skills to use for the benefit of the Company and to realize their potential as fully as possible. Once the results had been evaluated, workshops and other activities took place so that employees could play an active role in defining what measures needed to be taken.

The first employee survey, carried out in 2019, found that 78 percent of all DEUTZ employees were motivated and 69 percent felt empowered to do their work.[1] DEUTZ has set itself the target of maintaining these levels up to 2023.

Under the sustainability strategy adopted at the end of 2019, DEUTZ had planned to conduct the groupwide employee survey every two years. However, it decided in 2020 to extend this to every three years, mainly in view of the introduction of the 'Transform for Growth' program.

Equality-friendly management culture DEUTZ endeavors to consciously harness diversity for the success of the Company in order to gain a better understanding of changing markets, access a larger pool of talent, and benefit from additional creativity and innovation.

In the spirit of both the United Nations' fifth sustainable development goal (gender diversity) and the Women's Empowerment Principles, DEUTZ strives to drive forward the representation of women in management and in the workforce generally, and to establish a leadership culture based on equal opportunities. Consequently, recruitment decisions are made solely on the basis of the candidate's professional suitability. DEUTZ AG also attaches importance to the principle of equal pay for women and men. This means that an employee's remuneration is essentially determined solely on the basis of their personal and professional qualifications and the responsibilities assigned to them. For employees covered by a binding collective pay agreement, gender-specific differences in salaries for equal tasks are excluded from the outset.

With a view to advancing the careers of women within the Group, DEUTZ participates in a cross-mentoring program for female management trainees, in which a mentee works in tandem with a mentor from a different company. This enables the mentor to give the mentee insights into the structures and processes that are in place in another organization.

DEUTZ has set itself the target of increasing the proportion of women in the workforce as a whole[2] to more than 10 percent and the proportion of female managers[3] to more than 20 percent, in both cases by the end of 2023. In addition, the Supervisory Board specified in 2017 that there should be at least one female member of the Board of Management as at June 30, 2022.

In 2020, women made up 12.1 percent of the total workforce, meaning that we were able to exceed our medium-term goal during the reporting period. 11.4 percent of managers were female.

DEUTZ Group: Proportion of women

%

	2020	2019
Proportion of women in the workforce[1]	12.1	11.4
Proportion of women in management positions[2]	11.4	12.4

[1] Including staff on fixed-term contracts but excluding temporary workers.
[2] Including staff on fixed-term contracts but excluding temporary workers. The second level below the Board of Management, i.e. all female managers who report directly to a manager in the top level of senior management and have managerial responsibility.

Training DEUTZ attaches great importance to training. The Company's success in this area is evidenced by the fact that the training center at the headquarters in Cologne, the Factory for Talents, was recognized by the Cologne Chamber of Industry and Commerce for its outstanding achievements in vocational training for the tenth time in succession in 2020. Moreover, the German Chamber of Industry and Commerce named two DEUTZ apprentices as the best examinees in their respective vocations in Germany.

[1] 61 percent of all Group employees took part in the survey, including staff on fixed-term contracts but excluding temporary workers.

In 2020, a total of 20 apprentices embarked on careers in six different vocations at DEUTZ AG. As a result, the ratio of trainees to total employees was 3.2 percent.

DEUTZ AG: Ratio of trainees to total employees[1]

%

	2020	2019	2018	2017[2]
Ratio of trainees to total employees	3.2	2.6	2.5	2.5

[1] Number of trainees at the sites in Cologne, Ulm, and Herschbach (Germany) in relation to the number of employees in Germany, including staff on fixed-term contracts but excluding temporary workers, Torqeedo, and Futavis.
[2] The calculation for the ratio of trainees to total employees in 2017 was based on the number of employees including Torqeedo. The ratio has not been retrospectively adjusted.

A survey is carried out each year in order to ascertain the number of apprentices required overall and in each individual vocational field. The exact number is then fixed in consultation between the Board of Management and the DEUTZ AG works council commission, which is made up of equal numbers of employer representatives and workforce representatives. On the basis of the latest survey, a decision was made to lower the original target for 2023 for the ratio of trainees to total employees[4] from over 3 percent to between 1.5 and 2 percent. This takes account of factors such as the overall personnel adjustments that are planned in connection with 'Transform for Growth'.

Staff turnover DEUTZ firmly believes that new employees bring with them new perspectives that can help a company to develop and improve its ability to innovate. HR activities are therefore aimed at ensuring the groupwide rate of staff turnover[5] in 2023 is within a range of 5 to 10 percent. This target was not adjusted as a result of the global efficiency program and the accompanying reductions in the number of jobs.

DEUTZ Group: Rate of staff turnover[1]

%

	2020	2019
Rate of staff turnover	6.3	6.3

[1] Relates to all employees within the DEUTZ Group, excluding staff on fixed-term contracts and temporary workers; number of employees calculated as full-time equivalents (FTE). The calculation includes both resignations and dismissals.

In 2020, the rate of staff turnover[5] for the DEUTZ Group was 6.3 percent, which is the same level as in the prior year. However, it should be noted here – with respect to the reduction in the number of jobs across the Group as part of the global efficiency program and the discontinuation of the use of temporary workers due to the coronavirus crisis – that at the end of 2020 the number of employees who had left the Company by participating in the voluntary redundancy program was still only in the low double digits and that neither staff on fixed-term contracts nor temporary workers are included in the underlying calculation.

OCCUPATIONAL HEALTH AND SAFETY

Financial considerations must never be allowed to compromise the health and safety of staff, because every individual has the fundamental right to health and physical well-being. DEUTZ recognizes that providing a safe working environment that is conducive to health is part of its responsibility as an employer. Across the Group, it complies with the statutory requirements on occupational health and safety that apply from country to country. This involves implementing measures that are in line with local rules and are designed to ensure that employees are exposed to as few dangers as possible at work and to minimize the risk of accidents.

At present, occupational health and safety is still largely managed at local level, so the following information essentially relates to the sites of DEUTZ AG (unless indicated otherwise), where the majority of the Group's workforce – around 72 percent[1] – is based. However, the Company aims to set up a centralized organization and, going forward, to initiate planned health and safety activities on a groupwide basis.

DEUTZ SICHERHEIT The subsidiary DEUTZ SICHERHEIT GmbH is a centralized entity responsible for overall safety management and operational support for the German sites in Cologne and Herschbach. Its CEO reports directly to the Head of Quality Management, Environmental Protection, and Occupational Health and Safety at DEUTZ AG. Operational support comprises aspects such as plant safety and the works fire brigade for the Cologne sites as well as occupational health and workplace safety.

Management of occupational health and safety The management of occupational health and safety at DEUTZ AG and its Spanish subsidiary DEUTZ Spain centers on internal inspections. The frequency of these inspections is determined by the extent and type of risk presented by the machinery or workspace. In assembly and production, for example, teams made up of experts from various disciplines carry out these inspections. Any issues identified are documented in action plans that specify a timeframe for remedial measures to be taken.

In respect of the handling of hazardous substances, the Company has been working on the phased implementation of a hazardous substances management framework for the German sites since the end of 2019. This initiative involves measures such as the preparation of operating manuals on the handling of hazardous materials, which describe/define relevant safety measures and will be provided to employees. The objective is to ensure compliance with statutory requirements and prepare the ground for the planned certification in accordance with ISO 9001, ISO 14001, and ISO 45001. See also 'Environmental and climate protection', p. 89.

Integrated management system By the end of 2021, DEUTZ intends to extend the integrated management system (**IMS**) that it has established in Germany so that it also covers occupational health and safety. To this end, the production sites of DEUTZ AG are to be successively certified in accordance with the global ISO 45001 standard. ISO 45001 sets out the requirements for an effective system for managing occupational health and safety.

In 2020, this process commenced with the implementation of the system at the Cologne-Porz and Cologne-Kalk sites. At the same time, preparatory steps such as a gap analysis were conducted to help the Company identify relevant fields of action for the integration of the first sites. The initial audit and certification are scheduled to take place in 2021 and a section on occupational health and safety will subsequently be added to the integrated management handbook. Step two will involve certification of the sites in Ulm and Herschbach in 2022.

The production site in Zafra, Spain, already holds ISO 45001 certification.

Occupational health and safety measures In the wake of the outbreak of the coronavirus pandemic, protecting the health of employees has been of particular importance in 2020. In order to minimize the risk of infection and fulfill its contractual duty of care and protection, DEUTZ AG set up a coronavirus crisis management team in February 2020. This team is led by the Head of Group Safety and has been meeting on a weekly basis since its creation. The team is responsible for developing and implementing an operational action plan for the targeted protection of employees' health that can be adapted to the prevailing situation at any given time and thus fulfills the requirements of SARS CoV-2 occupational health and safety standards. The planning and implementation of this action plan takes places in close consultation with the works council.

Coronavirus-related health and safety measures that have been implemented over the course of the year include rules on social distancing and wearing face masks, which were distributed by DEUTZ free of charge, as well as steps to create a safe work environment in terms of infection control, increased cleaning cycles, and the provision of hand sanitizer in entrance areas, sanitary facilities, and communal areas. A special risk assessment was conducted for all workplaces to inspect working conditions and necessary safeguards. Depending on the level of severity of the pandemic at any given time, the Company carried out/offered body temperature checks at the entrance to certain premises such as the headquarters in Cologne and the Zafra plant in Spain. Working from home was facilitated and even encouraged, especially for employees in administrative functions.

In order to ensure that staff understand and comply with the new preventive and occupational safety measures, the Company has been communicating relevant information extensively and in a targeted manner using a variety of different channels. In addition to regular notifications, e.g. on the intranet and the DEUTZ Mobile app, it also uses noticeboard announcements and clear signs and labels, for example to remind employees to follow personal hygiene procedures such as minimizing aerosol spread when coughing and sneezing.

Coronavirus-related health and safety measures were largely managed in a centralized manner and rolled out consistently across the Group, despite the fact that the underlying organizational structure is still largely decentralized.

With regard to other occupational health and safety measures to be introduced groupwide, DEUTZ began to define the 'seven golden rules' in 2020, a set of uniform safety rules that will be communicated to every employee in writing. In addition, there are medium-term plans for a collective assessment of individual workplaces with regard to workflows and risks.

Frequency of accidents The frequency of accidents in 2020 halved, while the number of hours worked was slightly below the 2019 level due to the pandemic. Consequently the recordable incident rate (RIR)[6] of the DEUTZ Group improved to 7.4, compared to 11.2 in the prior year. The significant decrease is due partly to the ongoing intensification of occupational health and safety management and partly to coronavirus-related factors. The ongoing production modernization program helped to prevent or minimize accident risks. Measures included improving workflows using a 3D workplace design tool (ema) and the introduction of an end-to-end, process-driven approach in production planning. Further measures were implemented from occupational health and safety optimization plans that were developed in preparation for the planned certification to ISO 45001 in 2021 and as the result of internal inspections. At the same time, the reduced number of production cycles due to the significant – pandemic-related – decrease in the production program also had a positive impact on the RIR.

DEUTZ Group: Recordable incident rate (RIR)[1]

	2020	2019[2]	2018	2017
RIR	7.4	11.2	15.0	13.4

[1] For the production sites in the DEUTZ Group, excluding joint ventures. The recordable incident rate (RIR) is the number of reportable accidents at work per year per one million hours worked. An accident is deemed reportable if it occurs during working hours on the Company's premises while an insured activity is taking place and results in an absence of more than three calendar days. The day of the accident itself is not counted, but weekends are included if a medical certificate has been issued by an occupational health practitioner. Working hours are defined as the recorded or calculated actual time spent working and/or traveling by the employees. The working hours of permanent employees are counted, as are those of temporary workers, employees with fixed-term contracts, part-time staff, interns, and student workers.

[2] The figure for 2019 is not directly comparable with the figures for the previous years because temporary workers were not included in the calculation before 2019.

As part of the 'Sustainability Vision for 2023', DEUTZ has set itself the medium-term target of improving the RIR[1] to seven by the end of 2023. This figure was nearly achieved in 2020, but the aforementioned effects resulting from the impact of the coronavirus pandemic on the Company's business activities have to be taken into account, as these are likely to have had a positive effect on the RIR.

CORPORATE GOVERNANCE & COMPLIANCE

DEUTZ understands good corporate governance and compliance to mean acting responsibly and in accordance with the laws of the countries in which the Company operates. It also understands it to mean showing integrity and adopting an ethical and moral approach in day-to-day business conduct toward not only customers and employees but also investors and other stakeholders of the Company. As this represents the foundations for a sustainable and successful system of corporate governance, the key tasks of the groupwide compliance organization include cementing the importance of integrity and compliance in the mind of every DEUTZ employee, effectively mitigating compliance risks, and taking rigorous action against breaches of the rules.

Compliance organization DEUTZ has established a groupwide compliance organization to ensure that the Company and its employees act in accordance with the prescribed rules and regulations. At the heart of the organization is the internal compliance management system (CMS), whose function includes combating corruption and bribery, tackling money laundering, and ensuring compliance with export regulations and antitrust laws.

As measures to combat corruption and bribery form an integral part of the CMS, these issues and the topics introduced above are explained together in the following section.

In accordance with the schedule of responsibilities, the Supervisory Board of DEUTZ AG has delegated overall responsibility for the groupwide compliance organization to the Chairman of the Board of Management of DEUTZ AG. The Chairman of the Board of Management, for his part, appoints the Compliance Officer as well as individual compliance coordinators who are responsible for compliance in their respective departments. Twice a year, the coordinators submit a written report to the Compliance Officer, who in turn reports to the Board of Management and the Audit Committee of the Supervisory Board. As well as information on changes to the legal situation, the reports also focus on compliance-relevant matters, possible risks associated with these matters, and the countermeasures in place to mitigate or eliminate the risks. The basic principles of the compliance organization are set forth in a groupwide compliance policy.

The Compliance Officer and compliance coordinators hold regular meetings to plan the compliance activities that need to be initiated. The Compliance department also works closely with the Legal Affairs department, the Data Protection Officer, and Corporate Audit. Corporate Audit, for example, provides support with all key compliance activities and conducts ad hoc investigations, including to uncover cases of corruption. It also carries out compliance audits to address other potential compliance violations or fraudulent acts. The audit plan for these follows a risk-oriented approach that takes into account the Corruption Perceptions Index produced by Transparency International.

DEUTZ code of conduct and topic-specific organizational policies The DEUTZ code of conduct is the primary means of providing employees with guidance on how to conduct themselves with integrity and in accordance with the law. The code contains mandatory rules for behavior that cover areas such as respect for human rights, working conditions and social responsibility, anti-competitive practices, and data protection. It also sets out the Company's zero-tolerance approach to corruption and bribery. Organizational policies on specific topics supplement the code of conduct. They either summarize or provide more detail on laws and regulations as well as internal rules, and all employees are required to abide by them.

Because of the Company's global activities, the employees of the DEUTZ Group operate within different legal frameworks and value systems. To ensure that every employee follows standardized rules of behavior in spite of this, the code of conduct is applicable across the Group and was rolled out in five further languages in 2020 after it had previously only been available in German and English. This should prevent any difficulties in comprehension due to language barriers and ensure that the content of the code is understood in all countries.

The latest version of the code of conduct is available to download for employees on the intranet and for third parties on the Company website at **www.deutz.com/en/about-us/compliance/code-of-conduct.**

E-learning courses and classroom-based training To support employees in their efforts to avoid breaking the law or breaching regulations, they are required to complete annual compliance training in the form of e-learning courses or classroom-based training. At the start of the year, all of DEUTZ's administrative employees[7] are assigned training modules that they are asked to complete before the end of the year. The modules are assigned according to the employees' individual areas of responsibility and finish with tests that confirm whether the e-learning program has been completed and the content of the training has been assimilated.

Whereas previously it was only possible to complete the e-learning courses in German and English, versions in Chinese, Russian, Italian, French, and Spanish were added in 2020.

Employees of the individual departments of DEUTZ AG and its subsidiaries are generally given additional training on topical compliance matters once a year as part of a classroom-based training course tailored to their areas of activity. Classroom-based training is usually provided every year for non-administrative employees, most of whom work in the plants. Disciplinary action may be taken against these employees if they fail to attend the training or complete the e-learning courses despite having been sent automatically generated reminders.

[1] Here, the term administrative employees includes all individuals who are employed by the DEUTZ Group, including its foreign affiliates, as at December 31 of any given year and who are integrated into the Group's IT infrastructure, have access to a PC, and speak Chinese, English, French, German, Italian, Russian, or Spanish as the e-learning modules are available in these languages only. It excludes employees who left the Company during the year, were on parental leave, or were absent for more than 50 percent of the year due to long-term sick leave.

To take account of recent developments, for example new laws or regulations, the content of the training is expanded with new topic areas regularly and as needed. Since 2020, for example, the program has included a further module on data protection in addition to the existing ones covering health and safety, fair competition and anti-corruption.

By the end of 2020, a total of 3,012 (97.3 percent) of all administrative employees[1] within the Group had successfully completed the e-learning course. In the reporting year, DEUTZ therefore again exceeded the target of increasing the proportion of the workforce to have successfully completed compliance training to more than 95 percent, a target that it was aiming to achieve by 2023.

DEUTZ Group: Proportion of workforce to have completed compliance training[1]

%

	2020	2019	2018[2]	2017[2]
Proportion of workforce to have completed compliance training	97.3	98.1	93.5	–

[1] Only includes administrative employees.
[2] The proportion of the workforce to have completed compliance training was recorded for the first time in 2018.

Business partner compliance tool DEUTZ expects not only its employees to act in compliance with the law but also its business partners – whether they are customers, suppliers, or service providers.

In 2019, DEUTZ began to implement a new IT-based business partner compliance tool that will enable it to respond appropriately and at an early stage to matters such as suspected money laundering, anti-competitive practices, corruption, and bribery on the part of its business partners. It uses this to provide business partners with a web-based self-declaration form and then checks both the company itself and the members of its governance and supervisory bodies as well as the beneficial owners against up-to-date sanctions lists. On the basis of the information obtained, the business partners are classified using an internal DEUTZ risk model and, if required, action is taken to minimize risks.

Since the end of 2020, the business partner compliance tool has been used at German sites to conduct compliance checks on new business partners of DEUTZ AG. At the same time, work began on progressively applying these checks to existing business partners as well. The original plan was to start integrating the DEUTZ companies based outside Germany that use the SAP R/3 system from 2020. However, there were delays due to the outbreak of the coronavirus pandemic, meaning that this integration will not commence until 2021.

To support these mandatory checks on business partners carried out with the new tool, DEUTZ issued a groupwide business partner compliance policy when the tool was introduced.

Whistleblowing system To identify, at the earliest possible stage, behavior that violates laws or regulations and to immediately put a stop to any proven misconduct, a publicly accessible whistleblowing system was established for the purposes of reporting suspected compliance violations. Every suspected violation is documented in a uniform way and treated in accordance with the groupwide compliance policy.

The whistleblowing system is available to employees and to third parties on the Company website at **www.deutz.com/en/about-us/compliance/**. Strict secrecy and confidentiality are guaranteed both for whistleblowers and the individuals involved. This is maintained during the course of any investigation that is launched if, following a careful review of the evidence, there are concrete indications that a law or regulation has been violated. People can also report actual or suspected compliance violations, anonymously if they so wish, by email, post, or fax. The relevant contact details are published on the Company website at **www.deutz.com/en/about-us/compliance/code-of-conduct/**.

Risk management system Dealing responsibly with risks is a particularly important part of good corporate governance. With the help of DEUTZ's internal risk management system, the Board of Management is able to proactively identify groupwide risks so that it can respond rapidly to potentially relevant changes in the risk profile. Because all the departments are integrated into the risk management system, the monitoring of risks can be said to be comprehensive and it includes those that may arise in relation to corruption and bribery.

DEUTZ had intended to integrate the identification and evaluation of other risks related to the aspects defined as material into the Company's regular IT-based internal risk inventory process in 2020. However, due to cost-cutting measures related to coronavirus, the IT-supported integration has been delayed to 2021, which is why these risks were still identified and evaluated manually in 2020. Risks related to the achievement of non-financial KPIs were also examined manually and began to be reported regularly to the Board of Management in the year under review.

Corporate governance In addition to laws, regulations, and internal policies, the regulatory framework in which the Company operates encompasses other standards and guidelines such as the **German Corporate Governance Code**. The corporate governance report, the declaration of conformity issued by the Board of Management and Supervisory Board, and the corporate governance declaration for DEUTZ AG and the Group are published on the Company website at **www.deutz.com/en/investor-relations/corporate-governance/declaration-of-conformity/**.

SUPPLIER MANAGEMENT

DEUTZ maintains business relationships with nearly 550 suppliers in more than 40 countries. With nearly €900 million in direct materials purchased annually worldwide, DEUTZ AG's supply chain makes a significant contribution to its value creation process. As the Company's subsidiaries are mainly sales companies, overall responsibility for supplier management[1], including the approval of production component suppliers, lies predominantly with DEUTZ AG as the executive parent company. The general objective is to gradually centralize Group purchasing so that, in the medium term, all subsidiaries will be subject to the same principles as apply at DEUTZ AG.

Supplier management focuses primarily on the quality of the supplied components, lead times, and commercial conditions. But as part of the implementation of the groupwide sustainability strategy, there will also be a growing focus on sustainability criteria – especially those relating to respect for human rights, combating corruption and/or bribery, and maintaining certain environmental and social standards – in the supplier selection and assessment process. The Company has already initiated a whole host of measures in this regard and has also defined a variety of targets under its Sustainability Vision for 2023 that apply not just to DEUTZ AG but to the entire DEUTZ Group.

The responsibility for sustainability-related matters in purchasing and for materials compliance lies with the Non-Production Purchasing, Sustainability, and Compliance in Purchasing department, which is part of the Finance function.

Supplier management system DEUTZ AG systematically manages its suppliers using a 'supplier cockpit', which assists in monitoring the performance of key suppliers primarily from a purchasing, logistics, and quality perspective. The insights obtained via the cockpit are used to draw up and initiate measures to improve the performance of suppliers as necessary.

[1] The information in this section relates to direct suppliers that have a contractual relationship with DEUTZ.

In 2020, DEUTZ introduced a web-based assessment platform for global supply chains and a business partner compliance tool . The plan for 2021 is to establish processes that integrate the assessment results into the supplier management process.

Code of conduct for suppliers The DEUTZ code of conduct for suppliers (Supplier Code), which was introduced in 2019, is a key instrument in the Company's efforts to communicate sustainability aspects to its supply chain. The code sets out mandatory groupwide requirements, for example with regard to ensuring compliance with occupational health and safety standards and certain environmental protection standards as well as respecting human rights. Amongst other objectives, the code thus helps to ensure that DEUTZ does not make itself complicit in human rights abuses as defined in the second principle of the UN Global Compact. It also expresses our expectation that suppliers should impose the same requirements on their supply chain that DEUTZ imposes on them.

The Supplier Code is available in German, English, and Chinese and has become an integral part of all new supplier contracts and the general purchasing conditions with effect from January 1, 2020.

In order to ensure and track the effectiveness of the Supplier Code to the greatest possible extent, the Company conducts **audits** of both existing and new suppliers to assess their compliance with the requirements set out in the code. The Supplier Code, which is referenced in all standard supplier contracts, specifies that DEUTZ reserves the right to conduct such audits.

Under the Sustainability Vision for 2023, DEUTZ has set itself the target of auditing 30 existing suppliers a year between 2020 and 2023 regarding their compliance with the Supplier Code and of auditing 90 percent of all new suppliers over the same period.

Due to the outbreak of the coronavirus pandemic, it was not possible to conduct the full set of audits that had originally been scheduled for 2020. The total number of existing suppliers audited regarding their compliance with the Supplier Code came to just four. Because of coronavirus, it is unlikely that the scheduled number of audits will completed in 2021 either.

Assessment of the sustainability performance of suppliers using EcoVadis Our objective is to obtain a transparent overview of material sustainability risks in the supply chain that enables us to address these risks appropriately. With this in mind, DEUTZ established the global supply chain platform EcoVadis in 2020, which can be used to assess the sustainability performance of suppliers and identify potential for continuous improvement. The assessment criteria cover environmental and ethical topics, labor rights, human rights, and sustainable sourcing and take account of country-specific and industry-specific aspects as well as the size of the supplier.

DEUTZ has set itself the target of auditing and rating 50 percent of the top 150 suppliers as measured by DEUTZ's purchasing volume in the prior year via the EcoVadis online assessment. The proportion of suppliers audited in this way in 2020 was 31 percent.

For 2021, DEUTZ plans to develop a process that will make it possible to systematically detect and document weaknesses identified as part of the EcoVadis assessment. This documentation will then be used as a starting point for the definition of improvement measures in collaboration with the suppliers. At the same time, DEUTZ wants to put in place processes that will enable it to identify and assess suppliers with regard to potential sustainability risks, irrespective of purchasing volumes, and to subsequently conduct EcoVadis audits for them.

Business partner compliance As part of a preventive risk management approach, business partners are also checked regarding any potential misconduct – e.g. in connection with money laundering, unfair competitive practices, or corruption and/or bribery – in addition to the assessment of their sustainability performance via EcoVadis. To this end, DEUTZ introduced a business partner compliance tool in the fourth quarter of 2020.
See also 'Corporate governance and compliance', p. 85.

The target for 2023 is to use the newly established tool to conduct compliance risk assessments for 90 percent of all existing suppliers with whom DEUTZ's purchasing volume for the prior year exceeded €0.5 million.

Compliance with international regulations On account of its business activities, its products, the components of these products, and the processes used to manufacture them, DEUTZ is subject to regulations pertaining to the registration, evaluation, authorization, and restriction of chemicals (**REACH**), to the restriction of the use of certain hazardous substances in electrical and electronic equipment (**RoHS**), and to the use of conflict minerals.

In order to ensure compliance with the aforementioned regulations, DEUTZ set up the Materials Compliance function within the Non-Production Purchasing, Sustainability, and Compliance in Purchasing department in the previous reporting year. The responsibilities of this function include assessing the materials and substances used in products from a legal perspective, monitoring and assessing developments at regulatory and government policy level, as well as progressively expanding the level of collaboration with suppliers of production materials, and optimizing processes with regard to the materials and substances that are used. To achieve these aims, the function works closely with Component Purchasing for Series Production and the Supplier Quality department, including in an advisory capacity, and stipulates the criteria for the selection of production component suppliers with regard to materials compliance. In addition, an online database for materials declarations was established with the aim of monitoring supplier compliance with these criteria and improving the management of processes. This will eventually cover all suppliers. Building on this, an IT project was launched to implement a materials compliance software solution, which will help to further process information on materials over the course of the product life cycle.

In light of the fact that DEUTZ does not purchase any minerals directly, the Company has to work in conjunction with its business partners in order to exercise its responsibility in this respect. In order to avoid minerals from conflict-affected and high-risk areas in the supply chain and counteract illegal or unethical procurement practices, a corporate policy on conflict minerals was implemented in 2020 as a supplement to the Supplier Code. Among other sources, this policy reflects the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. DEUTZ carries out surveys on the use of conflict minerals at regular intervals to ensure compliance with this guidance and other regulatory requirements to the greatest possible extent. These surveys use the Conflict Minerals Reporting Template, which was developed by the Responsible Minerals Initiative (RMI) to support companies in their efforts to provide their customers with accurate information on the countries of provenance of certain minerals and the smelting plants and refineries they use.

ENVIRONMENTAL RESPONSIBILITY

ENVIRONMENTAL AND CLIMATE PROTECTION

DEUTZ believes that part of its responsibility to society is to help improve the protection of the environment and climate around the world by developing innovative drive solutions for its customers. The Company also strives to fulfill its responsibility in this area by continuously optimizing the processes and activities associated with its own business operations with regard to their impact on the environment and society.

The production sites of the DEUTZ Group are largely managed at local level due to differing circumstances at each location, which is why the following remarks refer in the main to the DEUTZ AG network of production sites.

Despite its decentralized organizational structure, DEUTZ has set a number of targets as part of its sustainability strategy that – unless otherwise specified – relate to the production sites[1] of the Group as a whole.

Internal inspections and legal conformity Areas of the business whose activities could have harmful effects on the environment, such as the assembly line and paintshop, are inspected at least once a year by an internal team of auditors and experts to certify compliance with the Company's own objectives and specifications and with statutory requirements. This enables possible hazards and potential for improvement to be identified at an early stage, progress with the implementation of measures already introduced and the impact of such measures to be monitored, and new measures to be initiated.

The statutory requirements in Germany derive, for example, from the Act on the Prevention of Harmful Effects on the Environment Caused by Air Pollution, Noise, Vibration and Similar Phenomena (Federal Immission Control Act – BImSchG) and the Act to Promote Circular Economy and Safeguard the Environmentally Compatible Management of Waste (Circular Economy Act – KrWG).

On account of its production processes and product components, DEUTZ is also subject to international regulations. These include the regulation pertaining to the registration, evaluation, authorization, and restriction of chemicals (**REACH**), the directive restricting the use of certain hazardous substances in electrical and electronic equipment (**RoHS**), and provisions governing the use of conflict minerals. See also 'Supplier management', p. 87.

An approval procedure ensures that the use in production of substances that could be detrimental to the safety of our staff, or harmful to the environment, is minimized as far as is possible. Responsibility for this lies with the Materials Compliance function, which was established in 2019 and forms part of the Non-Production Purchasing, Sustainability, and Compliance in Purchasing department. The remit of this function, in addition to assessing products from a legal perspective, includes the incremental optimization of processes with regard to the materials and substances that are used. See also 'Supplier management', p. 87.

Integrated management system (IMS) DEUTZ AG's integrated management system, which currently covers environmental protection, energy, and quality, meets the requirements of the international environmental management standard DIN EN ISO 14001:2015, the energy management standard ISO 50001:2018,

[1] Excluding joint ventures.

and the quality management standard ISO 9001:2015. Conformity with regard to the various scopes is reviewed annually by an independent certification body and was recertified in the reporting year. In addition to the aforementioned external review, internal audits are regularly carried out in close collaboration with the departments and the most senior level of management. The primary objective is to use the insights gained to draw up measures that will improve processes and achieve defined targets and to monitor the implementation of these measures.

In 2020, DEUTZ AG's energy management system, which enables the continuous monitoring of consumption and energy flows and in turn facilitates the effective planning and implementation of optimization measures, was recertified to ISO 50001:2018 at the Cologne and Ulm sites without any nonconformities. The next monitoring audit will take place in 2021.

DEUTZ AG's environmental management system, which is intended to help continually improve the overall environmental performance of DEUTZ AG, was also recertified to ISO 14001:2015 at the Cologne site in 2020 and extended to all of DEUTZ AG's German plants and to the Company's second-largest production facility at the headquarters of DEUTZ Spain in the Spanish town of Zafra.

Measures to reduce energy consumption In 2020, with the aim of progressively optimizing energy consumption, DEUTZ continued to pursue the measures that had been initiated in the prior year at its head office in Cologne. The focus was on ongoing efforts to increase the energy efficiency of existing buildings and facilities and on the optimization of existing systems. This included the optimization of several compressor units and the introduction of cold testing for certain diesel engines, during which diagnostic programs are run without any fuel being used – unlike in the past. The phased replacement of conventional lighting with LED lighting was also continued in 2020 and is likely to be completed in 2021.

A progressive reduction of electricity consumption is not the extent of DEUTZ's ambition, however. The Company is also committed to promoting the generation of power from alternative or renewable energy sources, which is why since January 1, 2021 all of DEUTZ AG's German production sites have been purchasing only green electricity.

In respect of other projects launched in the prior year, DEUTZ finalized plans to install photovoltaic systems on larger roof areas and completed the analysis of the supply of heating in the industrial and winter networks and the feasibility of installing a combined heat and power unit. However, due to cost-cutting measures brought in as a result of the coronavirus crisis, the implementation of these projects was put on hold.

DEUTZ Group: Energy consumption at the production sites[1]

MWh	**2020**	2019	2018	2017[2]
Electricity	72,672	87,316	94,999	84,605
Natural gas	28,945	35,989	38,271	35,277
District heating	11,262	10,969	12,349	12,223
Heating oil[3]	2,317	2,685	3,359	3,653
Diesel fuel[4]	18,951	20,764	18,165	19,218
CNG[5]	108	72	0	0
LPG[6]	245	390	633	421
Total	**134,502[7]**	**158,186**	**167,777**	**155,397**

[1] Excluding joint ventures.
[2] The figures for 2017 are only partly comparable with subsequent years because the subsidiary Torqeedo, which was acquired in 2017, is only included in the calculation of the KPI from the start of 2018.
[3] At 10.5 kWh/liter (mean).
[4] At 9.85 kWh/liter (mean).
[5] At 10.0 kWh/m3 for CNG (H) (mean) and 8.2 kWh/m3 for CNG (L) (mean).
[6] At 12.8 kWh/kg (mean).
[7] As a result of differing accounting periods, the total for 2020 includes an extrapolated figure for the Atlanta production for December 2020.

The consumption of energy fell by 15 percent in total year on year, reflecting the significant 36 percent contraction in production volume. The reason why the decline in consumption is not directly proportional to the reduction in the production volume is that base load consumption continually occurs in the plants even during non-production periods.

CO_2 emissions The majority of the scope 1 emissions from the DEUTZ Group's production sites[1] are generated in connection with testing in the area of research and development and with production quality controls. This testing involves using rigs to replicate the real-life operation of engines, which of course produces emissions. The majority of the scope 2 emissions[2] are generated in connection with production processes and other business operations.

[1] CO_2e = carbon dioxide equivalents; CO_2 emissions from the production sites of the DEUTZ Group excluding joint ventures. CO_2 figures are reported in accordance with the Greenhouse Gas Protocol and are determined by multiplying the energy consumed by the relevant emissions factor; scope 1: CO_2 emissions from diesel, natural gas, LPG, heating oil, and CNG caused by burning these fuels in our own facilities.
[2] CO_2e = carbon dioxide equivalents; CO_2 emissions from the production sites of the DEUTZ Group excluding joint ventures. CO_2 figures are reported in accordance with the Greenhouse Gas Protocol and are determined by multiplying the energy consumed by the relevant emissions factor; scope 2: CO_2 emissions relating to purchased energy, for example electricity and district heating. Excluding joint ventures.

In addition to our overarching objective of driving forward the use of alternative drive systems we are focusing on continually optimizing our processes in order to be able to lower emissions over the long term. For example, existing systems are being progressively optimized and methods such as the aforementioned cold testing are being trialed and introduced that could allow DEUTZ to dispense with some of the tests currently run for quality control. With regard to the cold testing introduced in 2020, the objective for 2021 is for at least 40 percent of engines with capacities of less than 4 liters to be tested using this method.

DDEUTZ Group: CO_2 emissions from production sites[1]

Tonnes CO_2e[2]

	2020	2019	2018	2017[3]
CO_2-emissions (scope 1)[4]	11,565	13,590	13,530	13,239
CO_2-emissions (scope 2)[5]	33,159	42,240	42,240	38,012
Total CO_2 emissions	**44,724**	**52,418**	**55,770**	**51,251**

[1] CO_2 emissions from the production sites of the DEUTZ Group excluding joint ventures. CO_2 figures are reported in accordance with the Greenhouse Gas Protocol and are determined by multiplying the energy consumed by the relevant emissions factor.
[2] CO_2e = carbon dioxide equivalents.
[3] The figures for 2017 are only partly comparable with subsequent years because the subsidiary Torqeedo, which was acquired in 2017, is only included from the start of 2018.
[4] Scope 1: CO_2 emissions from diesel, natural gas, LPG, heating oil, and CNG caused by burning these fuels in our own facilities.
[5] Scope 2: CO_2 emissions relating to purchased energy, for example electricity and district heating.

Despite ongoing research activities at the site in Cologne-Porz, the significantly reduced production volume at the production sites[1] led to a drop in overall energy consumption and related CO_2 emissions (scope 1 and 2) of around 15 percent year on year.

DEUTZ Group: CO_2 emissions[2] per manufactured engine[1]

Emission pro Motor

CO_2e (kg)	**2020**	2019	2018	2017[3]
Emissions per engine	331	250	257	299

[1] Excluding joint ventures. CO_2e = carbon dioxide equivalents; CO_2 figures are reported in accordance with the Greenhouse Gas Protocol. The 'emissions per engine' figure is calculated by dividing total emissions by the number of engines made. CO_2 reporting covers scope 1 (CO_2 emissions from diesel, natural gas, LPG, heating oil, and CNG caused by burning these fuels in our own facilities) and scope 2 (CO_2 emissions relating to purchased energy (e.g. electricity, district heating). Only internal combustion engines and electric motors are counted, i.e. no other components such as batteries, gearwheels, or conrods for non-DEUTZ engines.
[2] CO_2e = carbon dioxide equivalents.
[3] The figures for 2017 are only partly comparable with subsequent years because the subsidiary Torqeedo, which was acquired in 2017, is only included from the start of 2018.

The key figure of CO_2 emissions per manufactured engine is, by definition, dependent on the production volume in the relevant year. While the production volume fell by 36 percent year on year, the key figure increased by around 32 percent. This divergence is due to the fact that consumption continues in engine development even during non-production periods.

Under its sustainability strategy, DEUTZ has set itself the target for 2023 of reducing CO_2 emissions by 20 percent compared to the base year 2017, both for its production sites[1] as a whole and per manufactured engine[1].

Nitrogen oxide and particulate emissions Due to the nature of the DEUTZ Group's product portfolio and manufacturing processes, both nitrogen oxide and particulate emissions are released at its production sites[1]. The majority of these emissions are produced by the running of combustion processes in the development plant's test rigs and by the bays used for hot testing, which replicate the real-life operation of engines and thus burn diesel and LPG.

The ongoing development of our engines is heavily influenced by laws and legislation, for example in the form of ever stricter emissions restrictions. Because of this, our development activities are aimed at continually optimizing the performance of the exhaust aftertreatment systems and the technical configuration of our products with the objective of continually reducing nitrogen oxide and particulate emissions. Routine measurements carried out by experts at the DEUTZ AG production sites confirm that we are in line with or well below approved thresholds. DEUTZ is thereby contributing to the protection of the climate and the environment not only at its production sites but also, in particular, with regard to the subsequent use of its engines in the field.

[1] Excluding joint ventures.

Nitrogen oxide and particulate emissions per manufactured engine[1,2,3]

	2020	2019	2018	2017
Nitrogen oxide (kg)	0.47	0.33	0.19	0.25
Particulate (g)	3.70	2.70	1.80	2.21

[1] Excluding joint ventures; the figures 'nitrogen oxide per manufactured engine' and 'particulate emissions per manufactured engine' are calculated by dividing the total emissions of each from test bays by the number of engines made. Only internal combustion engines are counted, i.e. no electric motors – as these do not produce nitrogen oxide and particulate emissions – and no other components such as batteries, gearwheels, or conrods for non-DEUTZ engines.

[2] The figures for 2019–2020 are not directly comparable with the figures for the previous years because the nitrogen oxide and particulate emissions in 2018 and 2017 were only collected for the production sites of DEUTZ AG and the scope was widened in 2019 to cover the DEUTZ Group as a whole.

[3] For the Ulm production site, the measurement of nitrogen oxide used in the calculation is based on the extrapolated figure from 2016.

Analogous to the CO_2 emissions per manufactured engine, the nitrogen oxide and particulate emissions per manufactured engine at the production sites are dependent on the production volume of the relevant year. Given that a certain level of fuel consumption occurs independently of the production volume as a result of the specified scope of testing, the content of which cannot be reduced nor the duration shortened, the nitrogen oxide and particulate emissions per manufactured engine at the production sites rose year on year by around 42 percent and 37 percent respectively.

Under its sustainability strategy, DEUTZ has set itself the target for 2023 of reducing both nitrogen oxide and particulate emissions per engine manufactured at its production sites[1] by 3 percent compared to the base year 2019.

Waste The majority of the waste produced at the DEUTZ Group's production sites is directly related to the manufacturing of engines and metal products as well as to their painting and subsequent shipping. The types of waste that occur therefore mainly comprise recyclable metal fragments, wood, plastic, and paper. Liquids used to treat, clean, and cool the metal surfaces of our engine components also make up a not insignificant proportion of the waste produced. These contain oil, among other things, which is why they mainly constitute waste for disposal.

DEUTZ Group: Volume of waste at the production sites[1]

Tonnes	**2020**	2019
Waste for disposal	4,312	6,337
Waste for recycling	11,892	14,160
Total waste	**16,204**	**20,498**

[1] Volume of waste from the DEUTZ Group's production sites, excluding joint ventures.

The amount of waste produced in 2020 fell by around 21 percent year on year due to the significantly lower production volume as a result of the coronavirus pandemic; the volume of waste sent for disposal fell by around 31 percent.

DEUTZ has set itself the target for 2023 of reducing waste for disposal at its production sites[1] by a total of 10 percent compared with 2019. Related measures planned for the coming years include the introduction of pallet pooling, an overhaul of the painting plant, and the elimination of secondary packaging.

[1] Excluding joint ventures.

INDEPENDENT PRACTITIONER'S REPORT ON A LIMITED ASSURANCE ENGAGEMENT ON NON-FINANCIAL REPORTING[1]

To DEUTZ AG, Cologne

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to §§ (Articles) 289b Abs. (paragraph) 3 and 315b Abs. 3 HGB "Handelsgesetzbuch": "German Commercial Code") of DEUTZ AG, Cologne, (hereinafter the "Company") for the period from 1 January to 31 December 2020 (hereinafter the "Non-financial Report").

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal controls as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

INDEPENDENCE AND QUALITY CONTROL OF THE AUDIT FIRM

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the information in the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

[1] PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the combined separate non-financial report and issued an independent practitioner's report in German language, which is authoritative. The following text is a translation of the independent practitioner's report.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of the Company's personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the consolidated financial statements and in the group management report
- Evaluation of the presentation of the non-financial information

ASSURANCE CONCLUSION

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

INTENDED USE OF THE ASSURANCE REPORT

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt, 10 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke	ppa. Juliane v. Clausbruch
Wirtschaftsprüfer	Wirtschaftsprüfer
[German public auditor]	[German public auditor]

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INCOME STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	2020	2019
Revenue	1	**1,295.6**	**1,840.8**
Cost of sales	2	–1,105.9	–1,510.5
Research and development costs	3	–97.7	–95.3
Selling expenses	4	–100.7	–103.4
General and administrative expenses	4	–45.8	–48.4
Other operating income	5	15.0	29.0
Other operating expenses	6	–68.3	–24.3
Write-downs of financial assets		–1.3	–1.7
Profit/loss on equity-accounted investments	7	1.4	0.7
Other net investment income	7	1.1	1.2
EBIT		**–106.6**	**88.1**
thereof exceptional items		–31.9	9.3
thereof operating profit (EBIT before exceptional items)		–74.7	78.8
Interest income	8	0.7	1.0
Interest expense	8	–4.3	–2.9
Other financial income	8	–0.4	–11.1
Financial income, net	8	**–4.0**	**–13.0**
Net income before income taxes		**–110.6**	**75.1**
Income taxes	9	3.0	–22.8
Net income		**–107.6**	**52.3**
thereof attributable to shareholders of DEUTZ AG		–107.6	52.3
thereof attributable to non-controlling interests		0.0	0.0
Earnings per share (basic/diluted, €)	10	**–0.89**	**0.43**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million

	Note	2020	2019
Net income		**–107.6**	**52.3**
Amounts that will not be reclassified to the income statement in the future	11	**–6.2**	**–5.7**
Remeasurements of defined benefit plans		–6.2	–5.7
Amounts that will be reclassified to the income statement in the future if specific conditions are met	11	**–4.0**	**4.8**
Currency translation differences		–5.5	4.2
thereof profit/loss on equity-accounted investments		–1.7	3.0
Effective portion of change in fair value from cash flow hedges		1.5	0.4
Fair value of financial instruments		0.0	0.2
Other comprehensive income, net of tax	11	**–10.2**	**–0.9**
Comprehensive income		**–117.8**	**51.4**
thereof attributable to shareholders of DEUTZ AG		–117.8	51.4
thereof attributable to non-controlling interests		0.0	0.0

BALANCE SHEET FOR THE DEUTZ GROUP

€ million

Assets	Note	**Dec. 31, 2020**	Dec. 31, 2019
Property, plant and equipment	12	361.7	347.2
Intangible assets	13	197.2	216.2
Equity-accounted investments	14	50.3	51.1
Other financial assets	15	4.4	5.0
Non-current assets (before deferred tax assets)		**613.6**	**619.5**
Deferred tax assets	16	74.2	68.6
Non-current assets		**687.8**	**688.1**
Inventories	17	274.2	321.7
Trade receivables	18	113.8	152.1
Other receivables and assets	18	32.8	79.8
Receivables in respect of tax refunds		7.2	4.2
Cash and cash equivalents	19	64.7	55.3
Current assets		**492.7**	**613.1**
Total assets		**1,180.5**	**1,301.2**

Equity and liabilities	Note	**Dec. 31, 2020**	Dec. 31, 2019
Issued capital		**309.0**	**309.0**
Additional paid-in capital		28.8	28.8
Other reserves		–3.9	0.1
Retained earnings and accumulated income		201.1	314.3
Equity attributable to shareholders of DEUTZ AG		**535.0**	**652.2**
Non-controlling interests		0.2	0.2
Equity	20	**535.2**	**652.4**
Provisions for pensions and other post-retirement benefits	21	148.5	151.2
Deferred tax liabilities	16	0.6	0.8
Other provisions	22	37.5	33.4
Financial debt	23	58.3	34.1
Other liabilities	24	5.9	5.7
Non-current liabilities		**250.8**	**225.2**
Provisions for pensions and other post-retirement benefits	21	11.9	12.4
Other provisions	22	83.3	66.6
Financial debt	23	90.2	36.4
Trade payables	24	153.0	180.6
Liabilities arising from income taxes		2.0	2.7
Other liabilities	24	54.1	124.9
Current liabilities		**394.5**	**423.6**
Total equity and liabilities		**1,180.5**	**1,301.2**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

€ million

	Issued capital[3]	Additional paid-in capital[3]	Retained earnings / accumu-lated income[3]	Fair value reserve[1,2]	Currency translation reserve[1]	Equity attributable to share-holders of DEUTZ AG	Non-controlling interests[3]	Total[3]
Balance at Jan. 1, 2019	**309.0**	**28.8**	**285.8**	**–1.0**	**–3.7**	**618.9**	**0.2**	**619.1**
Dividend payments			–18.1			–18.1		–18.1
Net income			52.3			52.3	0.0	52.3
Other comprehensive income			–5.7	0.6	4.2	–0.9	0.0	–0.9
Comprehensive income			46.6	0.6	4.2	51.4	0.0	51.4
Changes to basis of consolidation			0.0			0.0		0.0
Balance at Dec. 31, 2019	**309.0**	**28.8**	**314.3**	**–0.4**	**0.5**	**652.2**	**0.2**	**652.4**
Balance at Jan. 1, 2020	**309.0**	**28.8**	**314.3**	**–0.4**	**0.5**	**652.2**	**0.2**	**652.4**
Dividend payments			0.0			0.0		0.0
Net income			–107.6			–107.6	0.0	–107.6
Other comprehensive income			-6.2	1.5	–5.5	–10.2	0.0	–10.2
Comprehensive income			–113.8	1.5	–5.5	–117.8	0.0	–117.8
Changes to basis of consolidation			0.6			0.6		0.6
Balance at Dec. 31, 2020	**309.0**	**28.8**	**201.1**	**1.1**	**–5.0**	**535.0**	**0.2**	**535.2**

[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
[3] The Items of equity are explained in Note 20 of the notes to the consolidated financial statements.

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	2020	2019
EBIT		**–106.6**	**88.1**
Income taxes paid		–5.5	–32.2
Depreciation, amortization and impairment of non-current assets		106.4	87.4
Gains/losses on the sale of non-current assets		0.1	–8.7
Profit/loss and impairment on equity-accounted investments		–0.9	–0.2
Other non-cash income and expenses		0.1	2.9
Change in working capital		55.1	–11.5
Change in inventories		43.2	14.1
Change in trade receivables		37.4	9.2
Change in trade payables		–25.5	–34.8
Change in other receivables and other current assets		49.6	–35.1
Change in provisions and other liabilities (excluding financial liabilities)		–53.4	24.9
Cash flow from operating activities		**44.9**	**115.6**
Capital expenditure on intangible assets, property, plant and equipment		–75.9	–96.5
Expenditure on investments		0.0	–49.1
Acquisition of subsidiaries		–1.1	–8.0
Proceeds from the sale of non-current assets		0.8	4.2
Cash flow from investing activities		**–76.2**	**–149.4**
Dividend payments to shareholders	20	0.0	–18.1
Interest income		0.1	0.4
Interest expense		–4.6	–3.2
Cash receipts from borrowings		88.0	11.6
Repayments of loans	23	–27.4	–21.1
Principal elements of lease payments		–14.6	–13.5
Cash flow from financing activities		**41.5**	**–43.9**
Cash flow from operating activities		44.9	115.6
Cash flow from investing activities		–76.2	–149.4
Cash flow from financing activities		41.5	–43.9
Change in cash and cash equivalents		**10.2**	**–77.7**
Cash and cash equivalents at Jan. 1		**55.3**	**132.8**
Change in cash and cash equivalents		10.2	–77.7
Change in cash and cash equivalents related to exchange rates		–1.1	0.2
Change in cash and cash equivalents related to the basis of consolidation		0.3	–
Cash and cash equivalents at Dec. 31	19	**64.7**	**55.3**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

PARENT COMPANY

The parent company of the DEUTZ Group is DEUTZ AG. Its registered office is located at Ottostrasse 1, 51149 Cologne, Germany, and the Company is entered under no. HRB 281 in the commercial register at the local court in Cologne. The Board of Management approved these consolidated financial statements for publication by adoption of a resolution dated February 26, 2021.

DEUTZ AG shares are listed in the Deutsche Börse SDAX segment and are publicly traded on the Xetra electronic trading platform and on all German stock exchanges.

DEUTZ is one of the world's leading manufacturers of drive systems for off-highway applications. 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. The business is broken down into the main application segments of Construction Equipment, Material Handling, Agricultural Machinery, and Stationary Equipment. Comprehensive aftersales service rounds off the product range offered. The Group's activities are divided into three operating segments: DEUTZ Compact Engines (DCE), DEUTZ Customized Solutions (DCS), and Other. The DCE segment comprises liquid-cooled engines with capacities of up to 8 liters and our joint venture with SANY, which is consolidated using the equity method. The DCS segment specializes in liquid-cooled engines with capacities of over 8 liters and in air-cooled drives. It also includes reconditioned exchange engines and parts produced under the name DEUTZ Xchange, along with engine series that are soon to be discontinued. The Other segment includes the Torqeedo subsidiary, which focuses on the electrification of drive systems and electric-powered watercraft, and Futavis, a development services provider that specializes in high-voltage battery management systems. In its operating segments, DEUTZ focuses on value creation processes involving the development, design, production, and sales of liquid-cooled and air-cooled engines, hybrid engines, and electrified drive systems.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The DEUTZ Group's consolidated financial statements prepared for the parent company DEUTZ AG are based on uniform accounting policies. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations as adopted by the European Union (EU) and are consistent with the statutory obligations applicable to publicly traded parent companies subject to disclosure requirements pursuant to section 315e (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated July 19, 2002 concerning the application of international accounting standards, as amended (IAS Regulation).

The consolidated financial statements are generally prepared using the cost method. Specific exceptions are derivative financial instruments and other financial instruments that are measured at fair value. The consolidated financial statements are prepared in euros. Unless otherwise stated, all figures are in million euros rounded up or down to one decimal place.

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

1) Amendments to accounting policies
The accounting policies on which the consolidated financial statements are based are fundamentally the same as the policies applied in 2019 with the exceptions set out below.

Conceptual Framework for Financial Reporting (Amendments)) In March 2018, the IASB issued the revised Conceptual Framework. The amendments address elements of the financial statements as well as measurement, the reporting entity, recognition, and disclosures. Initial application of these amendments has not had any material impact on the consolidated financial statements.

'Definition of Material' (Amendments to IAS 1 and IAS 8) The amendments published by the IASB in October 2018 are intended to give a precise definition of 'material' so that the information that reaches the primary users of the financial statements is complete and unobscured. Application of these amendments has not had any impact on the consolidated financial statements.

'Definition of a Business' (Amendments to IFRS 3) The IASB published these amendments in October 2018. They contain definitions, guidance on adoption, and illustrative examples under IFRS 3 and, among other things, clarify the distinction between a business combination and an asset acquisition. The amendments are to be applied to business combinations and asset acquisitions. There has been no material impact on the DEUTZ Group's consolidated financial statements since initial application.

'Interest Rate Benchmark Reform' (Amendments to IFRS 9, IAS 39, and IFRS 7) The IASB published these amendments in September 2019 as a result of the reforms to benchmark rates. The amendments will affect rules on hedge accounting and stipulate additional disclosures on the impact on the entity of the reforms to interbank offered rates (IBOR). The changes to the hedge accounting rules cover retention of the benchmark rate on which the cash flows of the hedged item, hedging instrument, or hedged risk are based, exemption from retrospective assessment of hedge effectiveness, and identification of risk components only when the hedge is originally designated. Initial application of these amendments has not had any material impact on the consolidated financial statements.

2) Published standards, interpretations, and amendments that have already become part of EU law but are not yet mandatory

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have published the following standards and amendments to standards that have already become part of EU law via the comitology procedure. However, the application of these standards was not yet mandatory in 2020 and DEUTZ has not opted to apply these interpretations or amendments to standards before the mandatory application date.

'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. The amendments come into force for reporting periods commencing on or after January 1, 2021. Early adoption is permitted, but DEUTZ will not be taking up this option. The amendments are not expected to have any material impact on the DEUTZ Group's consolidated financial statements.

'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. The exemption applies to financial years commencing on or after June 1, 2020. Retrospective adoption is also permitted. 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.

3) Published standards, interpretations, and amendments that have not yet been adopted by the EU

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have published the following standards and interpretations that have not yet been adopted by the EU and have not yet been applied by the DEUTZ Group.

'Classification of Liabilities as Current or Non-Current' (Amendments to IAS 1) In January 2020, the IASB made changes to IAS 1, introducing a comprehensive definition of liabilities in order to ensure a more accurate presentation of an entity's financial position. Essentially, the amendments clarify that the classification of liabilities as current or non-current has to be based on the contractual rights in place as at the balance sheet date. They also provide a more precise definition of the settlement of a liability. On July 15, 2020, the date on which these amendments become effective was put back from January 1, 2022 to January 1, 2023. Initial application of these amendments is not expected to have a material impact on the DEUTZ Group's consolidated financial statements.

'Disclosure of Accounting Policies' (Amendments to IAS 1) In February 2021, the IASB published amendments to IAS 1 and IFRS Statement 2. The amendments clarify that entities are required to disclose only 'material' accounting policies in the notes to the financial statements, and not 'significant' ones. An accounting policy is deemed 'material' if it relates to a material transaction or event. This condition is met if the accounting policy helps the reader to understand other material information in the financial statements and is applied in a manner that is specific to the company, resulting in the disclosure of company-specific information rather than generic disclosures. The IFRS Practice Statement 2 has been amended accordingly. The amendments come into force for reporting periods commencing on or after January 1, 2023. They are not expected to have any material impact on the DEUTZ Group's consolidated financial statements.

'Accounting Policies, Changes in Accounting Estimates and Errors' (Amendments to IAS 8) These amendments published by the IASB in February 2021 are intended to help entities distinguish between changes in accounting policies and changes in accounting estimates. A definition of the term 'accounting estimate' has been added to IAS 8. According to this definition, accounting estimates are deemed to be monetary amounts in financial statements that are subject to measurement uncertainty. An accounting policy, meanwhile, sets out how monetary amounts are calculated. The amendments come into force for reporting periods commencing on or after January 1, 2023. They are not expected to have any impact on the DEUTZ Group's consolidated financial statements.

'Property, Plant and Equipment — Proceeds before Intended Use' (Amendments to IAS 16) In May 2020, the IASB published amendments to IAS 16 clarifying the treatment of proceeds from the sale of products that are made using an item of property, plant, or equipment before this has been brought to working condition at its intended location. It prohibits any such proceeds from being deducted from the cost of that item of property, plant and equipment. These proceeds and the manufacturing costs must instead be recognized under operating income and expenses. The amendments also apply to the measurement of samples. Depreciation and amortization of property, plant and equipment that is used to produce samples cannot be included in the measurement of the samples and the provisions of IAS 2 must be applied when measuring the cost of producing samples. In addition, a definition of the term 'Costs of testing' (whether the asset is capable of being operated in the manner intended) has been added to the standard. A further amendment relates to the accounting treatment of proceeds received for the sale of items that are produced outside the ordinary course of business and the costs involved in producing them. These are now to be recognized separately and included as individual items within the statement of comprehensive income. The amendments come into force for reporting periods commencing on or after January 1, 2022. Early adoption is permitted, but DEUTZ will not be taking up this option. The amendments are not expected to have any material impact on the DEUTZ Group's consolidated financial statements.

'Onerous Contracts – Cost of Fulfilling a Contract' (Amendments to IAS 37 In May 2020, the IASB published amendments specifying the costs that need to be included in the assessment of onerous contracts. When assessing whether a contract is onerous, an entity must now include the full costs of fulfilling that contract, i.e. all additional costs arising as a result of the contract as well as costs that relate directly to the contract. The amendments come into force for financial years commencing on or after January 1, 2022. They apply to contracts for which not all obligations are fulfilled as at the date of initial application. The amendments are not expected to have any material impact on the DEUTZ Group's consolidated financial statements.

'Reference to the Conceptual Framework' (amendments to IFRS 3) In May 2020, the IASB published amendments to IFRS 3. The amendments encompass an update to the reference to the revised 2018 Conceptual Framework, application of IAS 37 or IFRIC 21 in the identification of assumed liabilities insofar as they fall within the specified areas of application, and a prohibition on the recognition of acquired contingent assets. They apply to new business combinations in financial years commencing on or after January 1, 2022. Earlier adoption is permitted if other references to the revised 2018 Conceptual Framework are adopted at the same time. DEUTZ will not be adopting these amendments early. The amendments are not expected to have any impact on the DEUTZ Group's consolidated financial statements.

'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (Amendments to IFRS 10 and IAS 28) The IASB issued these amendments in September 2014. They clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business as defined by IFRS 3 'Business Combinations'. The amendments have been postponed indefinitely owing to inconsistencies between the standards.

Annual Improvements to IFRSs 2018–2020 Cycle In May 2020, the IASB published amendments to the standards IFRS 1, IFRS 9, IFRS 16, and IAS 41. The standards that are relevant to the DEUTZ Group are IFRS 9 and IFRS 16. The amendment to IFRS 9 clarifies that in the '10 percent test' used to assess whether to derecognize a financial liability, an entity only needs to include costs and fees that are paid or received between the entity and the lender or that are paid or received on their behalf. The amendments to IFRS 16 clarify Illustrative Example 13 relating to the treatment of lease incentives. The amendments to IFRS 1, IFRS 9, and IAS 41 must be applied in financial years commencing on or after January 1, 2022. Earlier adoption is permitted but DEUTZ will not be adopting these amendments early. The date of initial application for the clarification of the example in respect of IFRS 16 is not specified. The amendments are not expected to have any impact on the DEUTZ Group's consolidated financial statements.

Significant estimates and assumptions

To a certain extent, the preparation of the consolidated financial statements in accordance with IFRS requires estimates and assumptions that have an impact on the recognition, measurement, and reporting of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date, and the reporting of income and expenses. Estimates and assumptions giving rise to a material risk in the form of adjustments to the carrying amounts of assets or liabilities over the next financial year are explained below. Adjustments to estimates are recognized in income when better knowledge becomes available. Where the worldwide COVID-19 pandemic has resulted in changes to significant estimates and assumptions, these are explained in the relevant notes.

Impairment of non-financial assets The DEUTZ Group conducts tests at each balance sheet date to determine whether there are any indications that non-financial assets, except goodwill, may be impaired. Goodwill must be tested for impairment at least once a year or on an ad hoc basis if there are any indications of impairment. In order to estimate the value in use, the management must estimate future cash flows expected to be derived from the asset or from the cash-generating unit and select an appropriate discount rate to determine the present value of these cash flows. The COVID-19 pandemic had a significant impact on the DEUTZ Group's medium-term planning. Compared with the prior-year planning, the current planning, which was based on the assessments as at December 31, 2020, shows a reduction in the first two years of the plan. However, the medium-term planning does indicate a return to the pre-crisis level in around two years.

Deferred tax assets The DEUTZ Group is obliged to pay income taxes in various countries. It therefore needs to make estimates on the basis of which tax provisions and deferred taxes can be recognized. When determining the amount of deferred tax assets, the management must make judgments – which may involve material uncertainties – regarding the expected timing and amount of future taxable income as well as future tax planning strategies. DEUTZ mainly recognizes deferred tax assets on losses carried forward. They are recognized for all unused tax loss carryforwards to the extent that it is probable that future taxable profit will be available against which the loss carryforwards can actually be set off. Planning forecasts over a period of five years are used to determine the future taxable profit that is likely to be available.

As at December 31, 2020, the carrying amount of deferred tax assets recognized in respect of tax loss carryforwards amounted to €47.7 million (December 31, 2019: €62.2 million). Further details can be found in Note 16 on page 129 onward.

Pension benefits The expense for defined benefit plans is determined using actuarial calculations. These actuarial calculations are based largely on assumptions regarding discount rates, mortality, and future increases in pensions. These estimates are subject to material uncertainty owing to the long-term nature of these plans.

Because of changes in economic and market conditions, the costs and liabilities actually incurred may differ significantly from the estimates made on the basis of actuarial assumptions. The rate of pension increases, the longevity of those entitled to pension benefits, and the discount rate used can have a material impact on the amount of the defined benefit obligation and, consequently, on future pension costs.

Development expenditure is capitalized in accordance with the accounting policies described below. Management makes assumptions about the amount of future cash flows expected to be generated from the development projects, the discount rates to be applied, and the period over which the cash is expected to flow into the Company in order to determine the amounts to be capitalized. As at December 31, 2020, the carrying amount of capitalized development expenditure was €92.6 million (December 31, 2019: €108.8 million).

Pending or potential legal disputes DEUTZ AG and other companies in the DEUTZ Group are subject to a variety of regulations under tax, competition, and patent law as well as to other legal and statutory requirements. Existing and potential legal disputes are recorded and analyzed on an ongoing basis at DEUTZ; they are assessed in terms of their legal and financial impact and an appropriate amount is recognized in the risk provisions in the accounts. At present, it is not possible to predict the outcome of pending cases with any degree of certainty beyond the provisions already recognized. We do not expect them to have a significant adverse impact on the DEUTZ Group's financial position or financial performance. The overall position as regards the legal risks facing the DEUTZ Group is explained in more detail in Note 28 on page 155.

Business combinations When acquirees are consolidated for the first time, the identifiable assets and liabilities (including contingent liabilities) are recognized at their fair value as at the date of acquisition. The measurement of intangible assets is particularly subject to uncertainties. They are measured using accepted valuation methods on the basis of estimates of future cash flows, expected growth rates and exchange rates, discount rates, and useful lives.

Leases The lessee's incremental borrowing rate is used to measure lease liabilities because it is not possible to ascertain the interest rate implicit in the lease. The lessee's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow – over a similar term and with a similar level of security – the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. This incremental borrowing rate is determined using observable inputs: interbank rate, intra-group interest margin for contributions and short-term funding, interest rates for mortgage bonds, and country risk premium. The average duration is also calculated. As lease liabilities are fully repaid over the lease term, it is assumed that the duration in each case is equivalent to half of the lease term.

Leases with an indefinite term are assumed to have a term of five years, which is equivalent to the Group's medium-term planning period. However, this does not apply to leases that have an annual termination option that can be exercised by either the lessee or the lessor, such option giving rise to only an immaterial termination penalty or other immaterial disadvantages for the lessee. These leases are treated as short-term leases.

BASIS OF CONSOLIDATION

All subsidiaries, joint ventures, and associates are included in the consolidated financial statements.

Subsidiaries are all entities directly or indirectly controlled by DEUTZ AG. Subsidiaries are consolidated from the point at which the parent company acquires control. Consolidation ends when the parent company no longer has control. In addition to DEUTZ AG, the consolidated financial statements include nine German subsidiaries (2019: nine) and 21 foreign subsidiaries (2019: 18).

Having previously been unconsolidated for reasons of materiality, the subsidiary DEUTZ DO BRASIL LTDA., São Paulo, Brazil, was included in the consolidated financial statements of DEUTZ AG with effect from January 1, 2020 due to an increase in business activity. This had the following impact on net assets on the date of first-time consolidation:

Financial position on the date of first-time consolidation

€ million	
Cash	0.3
Other assets	1.2
Equity	0.7
Liabilities	0.8

The impact on financial position and financial performance in the reporting period was immaterial overall.

With effect from October 1, 2020, the basis of consolidation was expanded to include the subsidiaries DEUTZ Austria GmbH, Vienna, Austria, Motor Center Austria GmbH, Wels, Austria, and PRO MOTOR Servis CZ s.r.o, Modřice, Czech Republic.

In addition, DEUTZ Global Service Center, S.L. was founded in Zafra, Spain, in the fourth quarter and the non-operational subsidiary PTO Power B.V, Dordrecht, Netherlands, was deconsolidated in the third quarter of 2020. These changes did not have any material impact on the Group's financial position or financial performance.

Details of the acquisitions during the reporting year and the related impact on the Group's financial position and financial performance can be found in the 'Acquisitions' section on page 108 of these notes to the financial statements.

Joint ventures are companies over which control is exercised jointly by DEUTZ and other entities on the basis of a contractual agreement. Associates are entities over whose business and financial policies DEUTZ AG is able to exert a significant influence but are neither subsidiaries nor joint ventures. Associates and joint ventures are both accounted for in the consolidated financial statements using the equity method. In the year under review, as had also been the case in 2019, the consolidated financial statements included one foreign joint venture and one foreign entity in accordance with the rules governing associates.

PRINCIPLES OF CONSOLIDATION

The separate financial statements of the individual entities included in the consolidated financial statements have been prepared using uniform accounting policies in accordance with the regulations on consolidation. The consolidated financial statements comprise the financial statements of DEUTZ AG and of its subsidiaries prepared each year for the twelve months ended December 31.

The acquisition method has been used to account for business combinations since January 1, 2010. The acquisition cost is measured at the fair value of the assets transferred, the liabilities incurred or assumed (including conditional liabilities), and the equity instruments issued at the acquisition date, irrespective of the amount of any non-controlling interests. The determined acquisition cost is then allocated to the identifiable assets and liabilities (including contingent liabilities) that were measured at their fair value as at the date of acquisition in accordance with the rules of IFRS 3. The excess of the cost of acquisition over the value of net assets, after deduction of any non-controlling interests in acquirees, is recognized as goodwill. Negative goodwill is recognized in profit or loss in the period in which the business combination takes place. For each business combination, the Group decides whether to measure the non-controlling interest in the acquiree at fair value (full goodwill method) or at the proportionate fair value of the assets acquired and the liabilities assumed. The option to measure non-controlling interests at fair value is currently not exercised. Non-controlling interests are thus recognized at their proportionate share of the net assets, disregarding the goodwill. Acquisition-related costs arising in connection with business combinations are expensed as incurred.

The acquisition method was used to account for acquisitions between the transition to accounting based on IFRS on January 1, 2005 and December 31, 2009. Under this method, the carrying amount of the investment was offset against the DEUTZ Group's proportionate share of equity in the consolidated subsidiary remeasured at fair value on the acquisition date. Transaction costs directly attributable to the acquisition constituted some of the acquisition-related costs.

Non-controlling interests are the share of net profit/loss and net assets not attributable to the DEUTZ Group. The non-controlling interests reported as at December 31, 2020 relate to Mr. Glavan's holding of 25 percent of the voting shares in DEUTZ Romania S.r.l., of which Mr. Glavan is CEO.

Income and expenses, receivables and payables, and intercompany profits and losses generated between the consolidated entities are eliminated unless they are of no material significance.

JOINT VENTURES AND ASSOCIATES

Investments in joint ventures and associates are accounted for using the equity method. Under the equity method, investments in an associate or joint venture are recognized on the balance sheet at cost plus any changes in the DEUTZ Group's share of the entity's net assets that have occurred since the acquisition. The goodwill related to the associate or joint venture is included in the carrying amount of the investment and is not amortized. The income statement includes the DEUTZ Group's share of the profit or loss generated by the associate or joint venture. Unless they are material, gains and losses on transactions between the Group and its associates or joint ventures are eliminated. Changes recognized directly in the equity of the associate or joint venture are recognized by the DEUTZ Group in the amount of its investment and, as such, are appropriately presented in the statement of changes in equity. With one exception, the financial statements of the associate and joint venture are prepared to the same balance sheet date as the financial statements for the parent. Interim financial statements have not been prepared for reasons of materiality. Where required, figures are restated in line with the uniform accounting policies throughout the DEUTZ Group.

ACQUISITIONS

DEUTZ AUSTRIA, PRO MOTOR SERVIS, MOTOR CENTER AUSTRIA

On October 1, 2020, DEUTZ AG acquired 100 percent of the voting shares in DEUTZ Austria GmbH, Vienna, Austria, PRO MOTOR Servis CZ s.r.o, Modrice, Czech Republic, and Motor Center Austria GmbH, Wels, Austria, and included them in its consolidated financial statements. The subsidiaries sell and service diesel engines in Austria, the Czech Republic, Hungary, Slovakia, and Slovenia. The acquisition opens up direct access to the markets in the aforementioned regions and will help to boost DEUTZ AG's service business.

The acquisition of this group of companies impacted on the DEUTZ Group's net assets as follows:

€ million	Fair values as at the acquisition date
Property, plant and equipment	0.3
Investments	0.3
Non-current assets	**0.6**
Inventories	1.2
Trade receivables	1.8
Other assets	0.2
Cash and cash equivalents	0.5
Deferred taxes	0.2
Current assets	**3.9**
Total assets	**4.5**
Provisions for taxes	0.2
Other non-current provisions	0.6
Non-current liabilities	**0.8**
Financial liabilities	0.1
Trade payables	0.7
Other current liabilities	0.9
Current provisions	0.6
Current liabilities	**2.2**
Total liabilities	**3.0**
Net assets acquired	**1.5**
thereof attributable to DEUTZ AG	1.5
Consideration transferred (cash payment)	**1.6**
Goodwill of DEUTZ AG	0.1

The goodwill resulting from the acquisition is derived from the strengthening of DEUTZ AG's service business and the expected revenue-related synergies. This goodwill is currently not tax-deductible.

As the acquisition only took place on October 1, 2020 and the net assets acquired are still being examined, the figures for working capital acquired and the resulting goodwill are still provisional. The allocation of the goodwill to the relevant cash-generating units has therefore not yet been finalized.

The purchase consideration amounted to €1.6 million and was transferred in cash. No material transaction costs were incurred with regard to the business combinations. The net amount of the acquired trade receivables equated to €1.8 million. At the date of acquisition, there were no uncollectible receivables. The business combination caused consolidated revenue to rise by €1.6 million and net income to improve by €0.1 million. If the acquisition of the three companies had taken place with effect from January 1, 2020, there would have been additional consolidated revenue of €5.2 million and an increase in net income of €0.3 million.

A net cash outflow (after deduction of the cash acquired) of €1.1 million has been recognized for the acquisition of the three companies in the 'Acquisition of subsidiaries' line item in the cash flow statement.

ACQUISITIONS IN PRIOR PERIODS

FUTAVIS The contingent consideration amounted to €2.5 million as at the balance sheet date. Of the €1.8 million decline in the contingent consideration compared with the end of the prior year (December 31, 2019: €4.3 million) €1.2 million is attributable to a payment and €0.6 million is due to a remeasurement of the remaining contingent consideration. This decrease of €0.6 million in the contingent consideration was recognized in the income statement for 2020 under other comprehensive income. The remaining contingent consideration comprises the fixed-price component discounted on the basis of the maturity-specific cost of borrowing and a performance-related purchase price component discounted to the valuation date on the basis of the maturity-specific cost of capital.

CURRENCY TRANSLATION

The items in the financial statements of each individual entity in the DEUTZ Group are measured in the currency that corresponds to the currency of the primary economic environment in which the entity operates (functional currency). Transactions denominated in foreign currency are translated into the functional currency using the relevant exchange rates on the date of the transaction. Subsequently they are translated on every balance sheet date using the closing rate. All currency translation differences are recognized in profit or loss unless they are in connection with qualified cash flow hedges, in which case they are recognized in other comprehensive income.

With the exception of equity, balance sheet items in separate financial statements denominated in foreign currency are translated into the functional currency of the DEUTZ Group (euros) at closing rates. Income and expense items – including net income or loss – are translated at the average rates for the year. Equity – with the exception of net income or loss – is translated at the prevailing historical closing rates.

Differences arising from the translation of equity at historical rates and the translation of net income or loss at average rates for the year are reported in other comprehensive income in a separate item.

The main exchange rates used for currency translation purposes are shown in the following table (€1 translated into foreign currencies):

		Average rates		Closing rates at Dec. 31	
		2020	2019	**2020**	2019
USA	USD	1.15	1.12	1.23	1.12
China	CNY	7.90	7.72	8.02	7.82
Morocco	MAD	10.85	10.77	10.90	10.74
Australia	AUD	1.66	1.61	1.59	1.60
Russia	RUB	84.22	72.22	91.47	69.96
UK	GBP	0.89	0.88	0.90	0.85

ACCOUNTING POLICIES

Significant accounting policies used to prepare these consolidated financial statements are described below.

REVENUE RECOGNITION

Revenue generated by the sale of engines and services comprises the fair value received excluding VAT, discounts, and price reductions.

Revenue and other income are recognized as follows:

Revenue from the sale of engines Revenue from the sale of engines is recognized once a DEUTZ Group entity has delivered to a customer and control has passed to the customer. Estimates of future price reductions are covered by provisions and deducted from revenue.

Revenue generated by services Revenue generated by services mainly relates to the sale of remanufactured engines (Xchange business) as well as spare parts and is recognized at the time that control passes to the customer. Revenue from maintenance work is recognized over the period of time in which the services are rendered.

Income from the awarding of engine licenses and any related project business This income is either recognized over a period of time in accordance with the substance of the relevant agreements or recognized at a specific point in time once control has been transferred.

Interest income, dividends, and other income Interest income is recognized pro rata using the effective interest method. Dividend income is recognized at the time the right to receive the payment arises. Other income is recognized according to contractual agreements on the transfer of risks and rewards.

BORROWING COSTS

Borrowing costs that can be directly attributed to the construction or manufacture of an asset for which a substantial period is required to bring the asset to its intended usable condition are capitalized as part of the costs of the relevant asset. All the other borrowing costs are expensed as incurred. Borrowing costs are the interest and other costs incurred by a company in connection with borrowing funds.

ADDITIONAL DISCLOSURES

In addition to the information required by IFRS, the DEUTZ Group reports a figure for EBIT adjusted for exceptional items, which it uses for internal purposes to gauge the profitability of its business. 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. We use this KPI internally so that we can compare the Company's operating performance over time.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognized at cost and, if depreciable, less any depreciation on a straight-line basis and any additional impairment losses. Cost comprises the purchase price and any directly attributable costs incurred to bring the asset to the required location and working condition.

The costs of conversion of property, plant and equipment constructed internally comprise directly attributable costs, pro rata material and production overheads, and administrative expenses related to production or delivery of the service.

Subsequent costs are added to the carrying amount of the asset concerned as incurred, provided that the recognition criteria are satisfied. Repair and maintenance costs are expensed as incurred.

The depreciation period is based on the expected useful life of the asset. Land is not depreciated.

Straight-line depreciation is based on the following useful lives for the main asset categories:

	Useful life (years)
Buildings and grounds	15 – 33
Technical equipment and machines	10 – 15
Other equipment, furniture and fixtures	3 – 10

Residual carrying amounts, useful lives, and depreciation methods are reviewed at the end of each year and adjusted where appropriate.

An item of property, plant or equipment is derecognized either on disposal or if no further economic benefit is expected from further use or sale of the asset. Gains or losses arising from the derecognition of the asset are calculated as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement in the period in which the asset is derecognized.

LEASES

At the inception of a contract, an assessment is made about whether the contract is or contains a lease. This is deemed the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lessee recognizes a right-of-use asset and a lease liability at the time the underlying asset becomes available for use.

A right-of-use asset is measured at its cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. The cost comprises the amount of the initial measurement of the lease liability, any initial direct costs incurred, any costs for restoring the underlying asset to its original condition or for restoring the site or similar, and any lease payments made when or before the asset was made available, less any lease incentives received. Depreciation is recognized on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If ownership of the asset is transferred to the lessee, the right-of-use asset is depreciated until the end of the useful life of the underlying asset. Right-of-use assets are also tested for impairment.

A lease liability is measured at the present value of the lease payments still to be made. These payments are discounted at the lessee's incremental borrowing rate, because the interest rate implicit in the lease cannot be readily determined. The lease payments comprise fixed payments less any lease incentives received, variable lease payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option if the exercising of that option is reasonably certain, and payments of penalties in the event that an option to terminate the lease is exercised. Extension options and purchase options, the exercising of which is reasonably certain, are taken into account when determining lease terms. Upon subsequent measurement, the lease liability's carrying amount is increased by the interest expense and reduced by the lease payments made. The lease liability is remeasured if there is a change in the lease term, a change in the assessment of an option to purchase the underlying asset, or a change in the lease payments.

A practical expedient is applied to short-term leases with a term of no more than twelve months and to low-value leased assets (less than €5,000). The lease payments under these leases are recognized as an expense on a straight-line basis over the term of the lease.

INTANGIBLE ASSETS

Goodwill

Goodwill is the difference between the cost of an acquisition and the fair value of the net assets acquired less any non-controlling interests. As goodwill has an indefinite useful life, it is not amortized. However, it must be tested for impairment at least once a year in accordance with the provisions of IAS 36. It must also be tested for impairment on an ad hoc basis if there are any indications of impairment. Goodwill is tested for impairment at the level of the cash-generating units (CGUs). A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or other CGUs. Goodwill has to be allocated at the lowest level within the entity that is monitored for goodwill for internal management purposes. The CGUs defined in this way must not be bigger than an operating segment.

In an impairment test, the carrying amount of the goodwill is compared with the recoverable amount (higher of the fair value less costs to sell and the value in use) of the CGU in question. The recoverable amount of a CGU is calculated by determining the value in use according to the discounted cash flow (DCF) method. Value in use is calculated by discounting estimated future cash flows to their present value. The calculation uses a discount rate that reflects current market expectations in respect of the time value of money and the risks inherent in the CGU. The cash flows used in the calculation are derived and extrapolated from operational planning (five-year period).

For information on the allocation of goodwill to the Group's operating segments, see Note 13 'Intangible assets'.

MISCELLANEOUS INTANGIBLE ASSETS

Miscellaneous intangible assets are measured at cost. The cost of purchase or conversion includes directly attributable costs. The cost of conversion also includes a proportion of overheads and borrowing costs for long-term projects provided the recognition criteria are met. In subsequent periods, intangible assets are reported at cost less amortization on a straight-line basis and any additional impairment losses. Investment grants from customers are deducted from cost. The useful lives of both purchased and internally generated intangible assets are limited. The amortization expense and impairment losses are reported in the income statement accordingly.

The following principles are applied:

Internally generated intangible assets The accounting treatment of internally generated intangible assets is based on an implemented development process with defined milestones. During this process, the development costs for the products are capitalized provided that:

- they are technically and commercially feasible,
- a future economic benefit is likely,
- there is the intention to complete their development and sufficient resources are available to do so, and
- the costs of development can be reliably determined.

The review of whether these criteria are met takes place in connection with the achievement of defined milestones in the development process. Development projects at DEUTZ relate almost exclusively to the development of new engine series. The fact that these development projects are technically feasible and will actually be completed is borne out by a multitude of evidence from the past. The development expenditure incurred up to this point, and the research costs, are recognized in the income statement in the period in which they are incurred. As a rule, completed development projects are amortized on a straight-line basis over the expected production cycle of eight to ten years.

As at December 31, 2020, the material, completed development projects had the following remaining useful lives:

Engine series 2.9	8 years
Engine series 2.2	8 years
Engine series 3.6	6 years
Engine series 4.1	5 years
Engine series 6.1	5 years
Engine series 7.8	5 years

The useful lives and amortization methods for completed development projects are reviewed at every year-end, if not more frequently. If any changes in their useful lives are required, they are treated as changes in accounting estimates.

Other intangible assets These are measured at amortized cost and amortized on a straight-line basis over their estimated useful life of three to ten years.

Gains or losses arising from the derecognition of intangible assets are the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement in the period in which the asset is derecognized.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each balance sheet date, the DEUTZ Group carries out tests to establish whether there are any indications that an asset may be impaired. An impairment test is carried out at least once a year on intangible assets that are not yet available for use.

Impairment is determined by comparing the carrying amount with the recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If future cash inflows cannot be allocated to an individual asset separately from cash flows generated independently by other assets, the impairment test is applied to the cash-generating unit that includes the asset concerned. When impairment tests are conducted, assets are aggregated into cash-generating units at the lowest-possible level at which cash inflows can largely be independently identified.

Value in use is calculated by discounting estimated future cash flows to their present value. The calculation uses a discount rate that reflects current market expectations in respect of the time value of money and the risks inherent in the asset or cash-generating unit. The cash flows used in the calculation are derived and extrapolated from operational planning (five-year period). If the reasons for previously recognized impairment losses no longer exist, these impairment losses are reversed.

In 2020, lower unit sales forecasts as a result of the pandemic gave rise to indications of impairment ('trigger events') on property, plant and equipment and completed internally generated intangible assets. Subsequent impairment tests identified a need to recognize impairment losses on the affected engine series. For further details, see Notes 12 and 13 in these notes to the consolidated financial statements.

The estimates and assumptions used in the impairment tests are based on projections, which by their nature are subject to uncertainty, particularly with regard to future prices and volumes. Adjustments to the estimates made, for example due to unexpectedly poor economic conditions, could result in an impairment loss, especially in the case of individual engine series.

GOVERNMENT GRANTS

Government grants are recognized when there is sufficient certainty that the associated conditions will be fulfilled and the grants will actually be awarded. The DEUTZ Group deducts government grants relating to purchases of non-current assets from the cost of the respective asset. The amount of depreciation and amortization is based on the cost of purchase after deduction of such grants. In the case of an interest-free government loan that has been received, the value of the interest benefit has been quantified in accordance with the provisions in IFRS 9. The loan has been measured at fair value and the interest benefit recognized as deferred income.

INCOME TAXES

Deferred taxes Deferred taxes are recognized using the liability method for temporary differences between the carrying amount of an asset or a liability on the consolidated balance sheet and its tax base as at the reporting date as well as for tax loss and interest carryforwards.

Deferred tax assets are recognized to the extent that sufficient future taxable income is likely to be generated over the planning period against which the deductible temporary differences and the as yet unused tax loss carryforwards can be offset.

Deferred tax liabilities that arise from temporary differences in connection with investments in subsidiaries, joint ventures, and associates are always recognized unless the timing of the reversal of the temporary differences can be controlled and it is unlikely that the temporary differences will reverse in the foreseeable future.

Deferred taxes relating to items recognized in other comprehensive income are likewise recognized in other comprehensive income and not in the income statement.

Deferred tax assets and liabilities are netted if the DEUTZ Group is entitled to have the current tax assets offset against tax liabilities and if the deferred taxes relate to income taxes levied by the same tax authority.

Deferred taxes are recognized at the rates anticipated on recognition of the asset or liability. The anticipated tax rate is the rate that has already been enacted or announced at the balance sheet date, provided announcement of the tax rate has the substantive effect of actual enactment.

Current tax expense Current income taxes for the current period and for previous periods are recognized at the amount that is expected to be paid to (or recovered from) the tax authorities or has already been paid. The tax amount is calculated on the basis of tax rates and tax legislation enacted or substantively enacted as at the relevant balance sheet date.

INVENTORIES

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price achievable in the ordinary course of business less estimated costs still to be incurred.

The cost of raw materials and consumables as well as bought-in and spare parts is calculated using weighted average purchase prices.

Work in progress and finished goods are measured at the cost of conversion, which includes production materials and production wages as well as a proportion of material and production overheads.

Additional write-downs are applied to cover risks resulting from inventories' period of storage and impaired usability as well as contract-related losses.

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets are classified as 'held for sale' and recognized at the lower of their carrying amount and their fair value less costs to sell if their carrying amount essentially derives from their sale rather than from their continued use.

FINANCIAL ASSETS

In the DEUTZ Group, financial assets within the meaning of IFRS 9 can be in any of the following categories and are classified accordingly:

- Financial assets measured at fair value through profit or loss,
- Financial assets measured at fair value through other comprehensive income, or
- Financial assets measured at amortized cost.

On initial recognition, financial assets are measured at fair value. In the case of financial assets other than those measured at fair value through profit or loss, transaction costs directly attributable to the acquisition of the assets are also included.

Financial assets are assigned to one of the measurement categories on initial recognition. Assets may be reclassified if this is permitted and necessary.

Except in the case of held-for-trading financial assets, all regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date on which the asset is delivered to or by DEUTZ. Held-for-trading financial assets are recognized on the trade date, i.e. the date on which the DEUTZ Group enters into the obligation to buy or sell the asset. Regular way purchases and sales are purchases or sales of financial assets that provide for the delivery of the asset within a period determined by market regulations or conventions.

1. Financial assets measured at fair value through profit or loss In the DEUTZ Group, the group of financial assets measured at fair value through profit or loss includes held-for-trading financial assets. Equity instruments purchased for the purposes of trading and trade receivables earmarked for factoring are also allocated to this category.

Derivatives, including separately recognized embedded derivatives, are classified as held for trading unless they are derivatives designated as hedging instruments and are deemed effective. Gains and losses on financial assets held for trading are recognized in the income statement. At the time the DEUTZ Group first becomes a party to a contract, it determines whether an embedded derivative needs to be accounted for separately from the host contract. This decision is only reassessed if there is a substantial amendment to the terms of the contract and this amendment results in a significant change to the cash flows that would otherwise have been derived from the contract.

2. Financial assets measured at fair value through other comprehensive income Financial assets measured at fair value through other comprehensive income include debt instruments that are held either for sale or in order to collect the contractual cash flows. The contractual cash flows must consist solely of principal repayments and interest payments and accrue at specified intervals. At the time of derecognition, the changes in fair value recognized in other comprehensive income must be reclassified to the income statement. Non-current securities that do not constitute equity instruments are allocated to this category in the DEUTZ Group.

Equity instruments can also be subsumed under this category provided that they have not been purchased for trading purposes. In this instance, however, the changes in fair value recognized in other comprehensive income do not need to be reclassified to the income statement at the time of derecognition. As had been the case in 2019, the DEUTZ Group did not hold any of these financial instruments in the reporting period.

3. Financial assets measured at amortized cost This group includes financial assets that are held for the purposes of collecting contractual cash flows. The contractual cash flows must consist solely of principal repayments and interest payments on outstanding repayment amounts. In the DEUTZ Group, this category covers all receivables and financial assets that are not intended for disposal. The assets are measured using the effective interest method less any impairment losses. A gain or loss is recognized in profit or loss when these financial instruments are derecognized or written down, and through the amortization process.

IMPAIRMENT OF FINANCIAL ASSETS

For all financial debt instruments, with the exception of financial assets measured at fair value through profit or loss, a loss allowance is recognized on the date the asset is initially recognized that is equivalent to the expected loss from default events over the next twelve months. At every subsequent balance sheet date, the financial assets are subjected to an impairment test to establish whether there are any indications of impairment (for example, substantial financial difficulties on the part of the debtor, significant probability of insolvency proceedings against the debtor, the disappearance of an active market for the financial asset, significant changes in the technological, economic, legal, and/or market environment in which the issuer operates, a sustained fall in the fair value of the financial asset below amortized cost). In the event of a significant increase in credit risk, the loss allowance is adjusted to reflect the losses expected over the term to maturity or a write-down is recognized in the event of default of the financial asset if there are objective indications of impairment.

1. Financial assets measured at amortized cost Expected credit losses reflect the difference between the contractually agreed cash flows and those that are actually anticipated. They are recognized in the income statement as an impairment loss in a valuation allowance account. However, the gross carrying amount continues to be used to determine the interest income. If there are objective indications that financial assets measured at amortized cost are permanently impaired, the loss allowance is offset against the gross carrying amount of the financial asset. Following this partial write-down, the amortized cost is used to determine the interest income.

The loss allowance for trade receivables is calculated immediately over the entire term of the financial instrument. The allowance for other receivables and assets that are subject to low credit risk is recognized upon initial recognition of the asset for a period covering the subsequent twelve months.

If the amount of this impairment loss is found to be lower in subsequent reporting periods and this decrease can be attributed objectively to factors occurring after the recognition of the impairment loss, the previously recognized impairment loss is reversed. However, the new carrying amount of the asset must not exceed what the amortized cost would have been at the time the impairment loss is reversed if the impairment loss had not been recognized. The reversal of the impairment loss is recognized in the income statement.

2. Financial assets measured at fair value through other comprehensive income The impairment of debt instruments measured at fair value through other comprehensive income is recognized in profit or loss for the period and reduces the loss resulting from measurement at fair value that would otherwise be recognized in other comprehensive income.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, short-term deposits with an original term of up to three months, and credit balances held with banks.

FINANCIAL LIABILITIES

In the DEUTZ Group, financial liabilities within the meaning of IFRS 9 can be in either of the following categories and are classified accordingly:

- Financial liabilities measured at fair value through profit or loss, or
- Other financial liabilities.

Financial liabilities measured at fair value through profit or loss In the DEUTZ Group, the group of financial liabilities measured at fair value through profit or loss includes held-for-trading financial liabilities. To date, the DEUTZ Group has not made use of the option to designate financial liabilities as at fair value through profit or loss on initial recognition.

Derivatives, including separately recognized embedded derivatives, are classified as held for trading unless they are derivatives designated as hedging instruments and determined to be effective. If the fair value of these derivatives is negative, they are recognized under financial liabilities. Gains and losses on financial liabilities held for trading are recognized in the income statement.

Other financial liabilities in the DEUTZ Group for the most part comprise the following:

- Financial debt (liabilities to banks),
- Trade payables, and
- Other liabilities.

Other financial liabilities are classified as current unless the DEUTZ Group does not have the right to settle the liability until at least twelve months after the balance sheet date.

Other financial liabilities are initially recognized at their fair value including transaction costs. They are subsequently measured at amortized cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

DEUTZ only uses derivative financial instruments (interest-rate and currency derivatives) for hedging purposes as part of its business operations, in particular to reduce foreign currency risk in forecast transactions involving foreign currencies and to reduce interest-rate risk through the use of interest-rate swaps.

Derivatives are initially recognized at their fair value on the day they are entered into and are subsequently measured at the fair value prevailing at the time. The fair value of derivatives corresponds to the present value of estimated future cash flows. The fair value of currency forwards is based on the forward exchange rate as at the balance sheet date.

Changes in the fair value of non-hedging derivatives are immediately recognized in the income statement.

Cash flow hedges Forecast transactions (cash flows) in foreign currency and interest-rate risk are hedged using cash flow hedges. The effective portion of the changes in the fair value of derivatives designated as cash flow hedges is recognized in other comprehensive income. The ineffective portion of the changes in fair value is reported in the income statement under other income or other expenses.

The changes in fair value reported in the reserve for cash flow hedges are reclassified to the income statement in the period in which the hedged item is recognized in income.

The market values of derivatives designated as cash flow hedges are stated in Note 26. Changes in the cash flow hedge reserve are reported under a separate item in other comprehensive income (fair value reserve).

PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The occupational pension scheme offered by the DEUTZ Group takes account of the relevant legislation in various countries and the benefits that each company provides for its staff.

Occupational pensions take the form of defined benefit pension plans, which are funded by the recognition of pension provisions. Besides entitlements to an employer-funded pension, employees in Germany can build up an employee-funded pension by participating in a deferred compensation plan. In the UK (branch of DEUTZ AG), there is an employer-funded pension plan and the option of building up an employee-funded pension by participating in a deferred compensation plan. There are also employer-funded pension plans at DEUTZ Corporation, Atlanta (USA), at DEUTZ FRANCE S.A.S., Gennevilliers (France), at DEUTZ Italy S.r.l., Milan (Italy), and at Service Center Milan S.r.l., Milan (Italy).

The Group's liabilities arising from employer-funded defined benefit pension plans are calculated separately for each plan using actuarial principles. First, the pension benefits vested in earlier periods and in the current period are estimated. The next step is to discount these benefits using the projected unit credit method. The resulting present value represents the defined benefit obligation. The fair value of the plan asset is then deducted from the defined benefit obligation to determine the net liability to be reported on the balance sheet.

The interest rate used to discount the estimated pension benefits is determined using the yields available in the market on each valuation date for investment-grade, fixed-income corporate paper. The currency and terms to maturity of the underlying corporate paper match the currency and predicted duration of the post-retirement pension liabilities to be met.

The net interest cost is calculated by multiplying the net liability at the beginning of the reporting period by the interest rate used to discount the pension obligations at the beginning of the period.

The effects of the revaluation include the actuarial gains and losses on the valuation of the gross defined benefit obligation and the difference between the actual return on plan assets and the typical return on plan assets assumed at the beginning of the period when calculating the net interest cost.

While the revaluation effects are recognized in other comprehensive income, the net interest cost and the current service cost are reported as gains or losses in the reporting period. Net interest cost is reported in operating profit.

The calculation of the individual cost components in the net liability to be reported on the balance sheet on each reporting date is based on a report by a qualified actuary.

In the case of the employee-funded deferred compensation plan, the Company has taken out a reinsurance policy with a life insurance company based on the amount of salary contribution and undertakes to pay a pension based on the guaranteed capital that has been underwritten. The present value of the benefit obligation corresponds to the fair value of the entitlements to reinsurance cover on the basis of the asset values calculated by the insurer. For the purposes of recognition on the balance sheet, the present value of the benefit obligation is offset against the fair value of the entitlements to reinsurance cover in an equal amount.

As well as defined benefit pension plans, there are also defined contribution pension plans (e.g. direct insurance policies). The mandatory contributions are immediately recognized as staff costs. In this case, the recognition of provisions is not required because the DEUTZ Group has no obligation apart from the obligation to pay premiums.

OTHER PROVISIONS

Other provisions are recognized if there are legal or constructive obligations toward third parties that arise from past events and are likely to result in cash outflows. Furthermore, it must be possible to estimate the obligation reliably. Provisions are recognized at their settlement value calculated at the balance sheet date and take account of projected cost increases. Non-current provisions are discounted. Provisions for warranty obligations are recognized when products are sold or when new warranties are initiated. The measurement of potential warranty liabilities is based primarily on historical experience.

CONTINGENT LIABILITIES

Contingent liabilities are potential obligations that arise from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events that, however, are beyond the control of the DEUTZ Group. Furthermore, present obligations may constitute contingent liabilities if it is not probable that an outflow of resources will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made.

EFFECTS OF THE CORONAVIRUS CRISIS ON THE CONSOLIDATED FINANCIAL STATEMENTS

The coronavirus crisis had a considerable impact on the Group's business activities in 2020, particularly in the first half of the year. This could be seen from the significantly lower volume of business, which was caused by a sharp fall in demand from customers and the temporary shutdown of production at DEUTZ. It was also necessary to review the significant estimates and assumptions that have an influence on the recognition and measurement of line items on the balance sheet and in the income statement.

The Group primarily responded to the smaller volume of business by adjusting production volumes and order volumes and by making use of short-time working. The €3.4 million reimbursement of social insurance contributions for lost working time, which DEUTZ received from the German Federal Employment Agency in connection with short-time working, was netted with staff costs in the individual functional areas. In addition, the use of temporary workers was substantially reduced and fixed-term contracts were not extended. Furthermore, the Transform for Growth efficiency program was initiated and resulted in the recognition of restructuring costs totaling €31.9 million as an exceptional item in the reporting year. And, based on updated estimates and assumptions, non-current non-financial assets were tested for indications of impairment as at the balance sheet date. Impairment was identified, in particular, in respect of capitalized development expenditure and was thus recognized in profit or loss. With regard to deferred tax assets, our assumption regarding business performance going forward allows us to predict that sufficient taxable income will be available over a certain planning period. To measure trade receivables, individual receivables were tested for impairment and, in particular, loss allowances for expected credit losses were analyzed. This involved calculating a new expected credit loss ratio on the basis of up-to-date customer credit ratings from Euler Hermes that was then applied to the trade receivables. Although this ratio had risen overall in view of the generally poorer credit ratings, loss allowances essentially remained unchanged in absolute terms due to the smaller volume of receivables.

To strengthen its liquidity during the coronavirus crisis, DEUTZ increased its lines of credit by €150 million in the second quarter of 2020, which means it now has firmly committed credit lines and loans totaling more than €340 million. Furthermore, the Board of Management and Supervisory Board's proposal to suspend the dividend for 2019 was accepted by a majority of votes at the virtual Annual General Meeting on June 25, 2020.

Quantitative disclosures and further comments on the main effects of the coronavirus crisis on the individual line items on the balance sheet and in the income statement are contained in the following notes.

NOTES TO THE INCOME STATEMENT

1. REVENUE

Breakdown of revenue by application segment and by timing of recognition in 2020

€ million

	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	**Total**
Construction Equipment	352.6	25.9			**378.5**
Material Handling	152.0	20.5			**172.5**
Agricultural Machinery	174.7	4.0			**178.7**
Stationary Equipment	65.1	49.2			**114.3**
Service	181.4	166.9			**348.3**
Miscellaneous/Marine	18.0	43.6	44.4	–2.7	**103.3**
Total	**943.8**	**310.1**	**44.4**	**–2.7**	**1,295.6**
thereof at a point in time	935.4	291.7	44.4	–2.7	**1,268.8**
thereof over a period of time	8.4	18.4	0.0	0.0	**26.8**

Breakdown of revenue by application segment and by timing of recognition in 2019

€ million

	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	**Total**
Construction Equipment	506.9	28.6			**535.5**
Material Handling	357.8	41.1			**398.9**
Agricultural Machinery	286.8	6.5			**293.3**
Stationary Equipment	97.6	58.2			**155.8**
Service	175.3	177.1			**352.4**
Miscellaneous/Marine	22.0	51.0	35.5	–3.6	**104.9**
Total	**1,446.4**	**362.5**	**35.5**	**–3.6**	**1,840.8**
thereof at a point in time	1,441.5	345.0	35.5	–3.6	**1,818.4**
thereof over a period of time	4.9	17.5	0.0	0.0	**22.4**

Breakdown of revenue by region in 2020

€ million	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	Total
Europe/ Middle East/ Africa	611.6	192.1	28.2	–2.7	**829.2**
Americas	156.2	54.7	11.6		**222.5**
Asia-Pacific	176.0	63.3	4.6		**243.9**
Total	**943.8**	**310.1**	**44.4**	**–2.7**	**1,295.6**

Breakdown of revenue by region in 2019

€ million	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	Total
Europe/ Middle East/ Africa	920.4	201.7	23.4	–3.6	**1,141.9**
Americas	314.6	80.7	9.0		**404.3**
Asia-Pacific	211.4	80.1	3.1		**294.6**
Total	**1,446.4**	**362.5**	**35.5**	**–3.6**	**1,840.8**

The Group primarily generates revenue from the sale of engines and spare parts (service) to manufacturers of applications and to dealers. The revenue is recognized when control of the products is transferred to the purchaser and no unfulfilled obligations remain. This is usually deemed to have occurred when the products have been delivered or when the shipping documents have passed to the purchaser, whichever is the earlier. At this point in time, the opportunities and risks are transferred to the purchaser and the obligation to pay the purchase price is created.

Retrospective volume discounts that are based on total revenue for the financial year are often agreed with major customers for the sale of engines and spare parts. Revenue from these sales is recognized in the amount specified in the contract less the estimated volume discount. The provision is estimated mainly on the basis of the sales that are expected to be generated from the customer (most likely amount), a figure that is periodically updated. The provision is recognized as a contract liability under other liabilities. No significant financing components are involved as payment terms in line with market practice are usually agreed with the customer. A provision for guarantees is recognized to cover the Group's obligation to repair or replace defective products in accordance with standard guarantee conditions.

When a remanufactured engine is sold (Xchange business), the customer is invoiced for the remanufactured engine and for a deposit for their old reconditionable engine. The revenue for the remanufactured engine is recognized at the point at which control is transferred. This is usually deemed to have occurred when the products have been delivered or when the shipping documents have passed to the purchaser, whichever is the earlier. At this point in time, the opportunities and risks are transferred to the purchaser and the obligation to pay the purchase price is created. The purchase price received for the deposit is recognized as a contract liability until the obligation to take back the reconditionable old engine expires.

In the reporting period, revenue of €2.7 million (2019: €4.2 million) was recognized that, at the beginning of the period, had been included in the balance of contract liabilities.

As part of its service business, the Group also carries out maintenance work. The revenue generated from this is recognized in the reporting period in which the services are rendered. As the services are usually rendered within a very short period of time, however, any revenue accrued at the end of the reporting period for services that have been rendered but not yet invoiced is not material.

2. COST OF SALES

The cost of sales comprises the following cost items:

€ million	**2020**	2019
Cost of materials	735.4	1,070.1
Staff costs	194.9	224.0
Depreciation and amortization on property, plant and equipment and intangible assets (excl. R&D)	53.1	48.6
Other cost of sales items	122.5	167.8
Total	**1,105.9**	**1,510.5**

3. RESEARCH AND DEVELOPMENT COSTS

The table below gives a breakdown of research and development costs:

€ million	**2020**	2019
Cost of materials	16.7	25.3
Staff costs	47.7	49.9
Depreciation, amortization and impairment	37.2	29.1
Own work capitalized and reimbursements	–12.0	–18.3
Other research and development costs	8.1	9.3
Total	**97.7**	**95.3**

The figure for depreciation, amortization and impairment in the reporting year includes impairment losses recognized on capitalized development expenditure of €10.8 million (2019: impairment losses of €4.5 million and reversals thereof of €1.4 million). The impairment losses are attributable to revised sales expectations and cost estimates as a result of the pandemic.

4. SELLING EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

Selling expenses amounted to €100.7 million in the year under review (2019: €103.4 million). General and administrative expenses came to €45.8 million (2019: €48.4 million). Both the selling expenses and the general and administrative expenses predominantly consisted of staff costs. The respective amounts were €65.7 million and €32.1 million (2019: €70.5 million and €34.6 million).

5. OTHER OPERATING INCOME

€ million	**2020**	2019
Income from recharged costs and services	2.8	11.0
Income from the disposal of non-current assets	0.0	9.4
Foreign currency gains	6.5	4.8
Income from the measurement of derivatives	1.0	1.0
Income from the reversal of provisions	0.0	0.5
Income from the derecognition of liabilities	0.0	0.4
Sundry other income	4.7	1.9
Total	**15.0**	**29.0**

The decrease in other operating income was largely the result of the reduction in income from the disposal of non-current assets. Another factor was a volume-related reduction in the onward charging of costs to logistics partners.

In 2019, income from the disposal of non-current assets included proceeds of €9.3 million received from the sale of part of the land at the former Cologne-Deutz site.

6. OTHER OPERATING EXPENSES

€ million	**2020**	2019
Restructuring costs	31.9	0.0
Other expenses from the adjustment of provisions	13.0	4.3
Foreign currency losses	11.7	6.3
Expenses for pensions and other post-employment benefits	2.6	3.8
Other cost of fees, contributions and advice	3.6	3.5
Expenses in connection with the disposal of non-current assets	0.0	3.4
Expenses in connection with the measurement of derivatives	1.0	0.7
Sundry other expenses	4.5	2.3
Total	**68.3**	**24.3**

In 2020, restructuring costs totaling €31.9 million were recognized in connection with the Transform for Growth efficiency program. The restructuring costs, which have been recognized as an exceptional item, predominantly consist of costs for severance payments, early retirement arrangements, and directly related consultancy services. €19.1 million of the restructuring costs are attributable to the production function, €5.7 million to sales, €4.5 million to administration, and €2.6 million to research and development.

In addition, higher provisions were recognized for onerous contracts in relation to orders on hand and there was an increase in foreign currency losses arising on the translation of foreign currency positions.

7. PROFIT/LOSS ON EQUITY-ACCOUNTED INVESTMENTS, WRITE-DOWNS OF EQUITY-ACCOUNTED INVESTMENTS, AND OTHER INVESTMENT INCOME

€ million	**2020**	2019
Profit/loss on equity-accounted investments		
Income from equity-accounted investments	1.4	0.7
Expenses relating to equity-accounted investments	0.0	0.0
Total	**1.4**	**0.7**
Write-downs of equity-accounted investments	**0.0**	**0.0**
Other net investment income	**1.1**	**1.2**
Total	**2.5**	**1.9**

Income from equity-accounted investments consisted of DEUTZ AG's share in the profits of the joint venture Hunan DEUTZ Power, Ltd., Changsha, China, and the associate D. D. Power Holdings (Pty), South Africa. This income rose because Hunan DEUTZ Power was included in the consolidated financial statements of DEUTZ AG for the first time only at the end of December 2019 and so did not contribute any income that year.

As in the previous year, other net investment income related to profits transferred by DEUTZ Sicherheit GmbH, Cologne.

8. FINANCIAL INCOME, NET

€ million	2020	2019
Interest income on credit balances with banks	0.0	0.2
Other interest income	0.7	0.8
Interest income	**0.7**	**1.0**
Interest paid on liabilities to banks	–1.8	–1.1
Interest paid on sales of receivables	–0.8	–0.9
Interest paid on lease liabilities	–1.1	–1.0
Other interest expense and similar charges	–0.6	0.1
Interest expense	**–4.3**	**–2.9**
Other finance costs	**–0.4**	**–11.1**
Financial income, net	**–4.0**	**–13.0**

In 2020, borrowing costs of €0.1 million were capitalized (2019: €0.5 million).

9. TAXES

Income taxes The following table gives a breakdown of income taxes:

€ million	2020	2019
Current tax expense	1.9	13.4
thereof unrelated to the reporting period	0.6	0.4
Deferred tax expense (+)/ deferred tax income (–)	–4.9	9.4
thereof from temporary differences	–19.2	0.8
thereof from loss carryforwards	14.3	8.6
Total tax expense (+)/ income (-)	**–3.0**	**22.8**

The current income tax expenses predominantly related to current income generated by Group companies in 2020.

The deferred tax income included income of €19.2 million arising from temporary differences (2019: tax expenses of €0.8 million). These resulted mainly from effects in connection with the recognition of provisions for restructuring under the Transform for Growth efficiency program and the recognition of other provisions and capitalized development expenditure.

The coronavirus pandemic makes it likely that fewer loss carryforwards will be able to be used over the upcoming medium-term period of five years, resulting in a deferred tax expense on the recognition of deferred tax assets on loss carryforwards.

The tax reconciliation table shows the reconciliation from anticipated income taxes to effective taxes as shown in the income statement. Effective income taxes include current and deferred taxes. The applicable tax rate is 31.47 percent (2019: 31.51 percent) comprising corporation tax at 15 percent, the solidarity surcharge (5.50 percent of the corporation tax), and trade tax at 15.65 percent based on an average assessment rate.

€ million	2020	2019
Net income before income taxes	**–110.6**	**75.1**
Anticipated tax expense (+)/ income (-)	–34.8	23.7
Effect from trade tax add-backs and deductions	0.2	0.1
Differing tax rates	–0.8	–0.5
Effects of deferred taxes on loss carryforwards and of the utilization of current losses	33.3	1.9
Effect of non-deductible expenses	0.7	–1.0
Effect of consolidation adjustments	–0.6	0.0
Share of profit (loss) of equity-accounted investments	–0.3	0.0
Effect of tax-exempt income	–1.1	–1.5
Effect of potential dividend distributions	–0.2	0.0
Effects not related to the reporting period		
Prior-year tax payments	0.6	0.3
Deferred taxes resulting from prior-year adjustments	0.0	–0.2
Effective tax expense (+)/ income (–)	**–3.0**	**22.8**
Effective tax rate (%)	**2.7**	**30.4**

The tax effect arising from deferred taxes on loss carryforwards resulted from the lower level of deferred taxes recognized on loss carryforwards.

10. EARNINGS PER SHARE

Earnings per share is calculated in accordance with IAS 33. The DEUTZ Group calculates basic earnings per share by dividing the net income attributable to its shares by the weighted average number of shares outstanding.

There were no dilutive effects in 2020 or 2019 because there are no exercisable options to convert financial instruments with equity components.

	2020	2019
Net income attributable to shareholders of the DEUTZ Group (€ million)	–107.6	52.3
Weighted average number of shares outstanding (€ thousand)	120,862	120,862
Earnings per share (€)	**–0.89**	**0.43**

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

11. 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	**2020**			**2019**		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Amounts that will not be reclassified to the income statement in the future	**–9.0**	**2.8**	**–6.2**	**–8.3**	**2.6**	**–5.7**
Remeasurements of defined benefit plans	–9.0	2.8	–6.2	–8.3	2.6	–5.7
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**–3.3**	**–0.7**	**–4.0**	**5.0**	**–0.2**	**4.8**
Currency translation differences	–5.5	0.0	–5.5	4.2	0.0	4.2
thereof profit/loss on equity-accounted investments	–1.7	0.0	–1.7	3.0	0.0	3.0
Effective portion of change in fair value from cash flow hedges	2.2	–0.7	1.5	0.6	–0.2	0.4
Fair value of financial instruments	0.0	0.0	0.0	0.2	0.0	0.2
Other comprehensive income	**–12.4**	**2.2**	**–10.2**	**–3.3**	**2.4**	**–0.9**

In 2020, losses totaling €0.3 million on cash flow hedges (2019: losses of €3.0 million) recognized in other comprehensive income during the year (prior to the inclusion of deferred taxes) were reclassified to other operating expenses in the consolidated income statement.

NOTES TO THE BALANCE SHEET

12. PROPERTY, PLANT AND EQUIPMENT

Gross figures Cost of purchase/conversion	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
€ million					
Balance at Jan. 1, 2020	**269.7**	**538.3**	**316.3**	**21.0**	**1,145.3**
Currency translation differences	–1.3	–0.8	–0.5	–0.1	–2.7
Additions	13.6	26.2	26.8	14.8	81.4
Investment grants	0.0	–1.0	0.0	0.0	–1.0
Disposals	–3.5	–9.8	–7.3	–1.4	–22.0
Changes to basis of consolidation	1.0	0.7	0.5	0.0	2.2
Reclassifications	0.4	14.4	5.8	–20.6	0.0
Balance at Dec. 31, 2020	**279.9**	**568.0**	**341.6**	**13.7**	**1,203.2**

Gross figures Depreciation and impairment	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
€ million					
Balance at Jan. 1, 2020	**119.2**	**440.8**	**238.1**	**0.0**	**798.1**
Currency translation differences	–0.4	–0.6	–0.3	0.0	–1.3
Depreciation	17.2	19.7	25.0	0.0	61.9
Reversals of impairment losses	0.0	0.0	0.0	0.0	0.0
Impairment	0.2	0.5	0.8	0.0	1.5
Disposals	–2.9	–9.8	–6.9	0.0	–19.6
Changes to basis of consolidation	0.1	0.5	0.3	0.0	0.9
Reclassifications	0.0	0.0	0.0	0.0	0.0
Balance at Dec. 31, 2020	**133.4**	**451.1**	**257.0**	**0.0**	**841.5**
Net carrying amount at Dec. 31, 2020	**146.5**	**116.9**	**84.6**	**13.7**	**361.7**

Gross figures Cost of purchase/conversion	Land, lease-hold rights and buildings	Technical equip-ment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
€ million					
Balance at Jan. 1, 2019	**218.0**	**520.2**	**285.8**	**22.0**	**1,046.0**
Initial application of IFRS 16	32.9	1.6	6.7	0.0	41.2
Adjusted balance at Jan. 1, 2019	**250.9**	**521.8**	**292.5**	**22.0**	**1,087.2**
Currency translation differences	0.3	0.2	0.1	0.0	0.6
Additions	12.6	14.9	28.7	22.5	78.7
Investment grants	0.0	0.0	–0.1	0.0	–0.1
Disposals	–1.6	–14.5	–8.3	0.0	–24.4
Changes to basis of consolidation	2.9	0.2	0.2	0.0	3.3
Reclassifications	4.6	15.7	3.2	–23.5	0.0
Balance at Dec. 31, 2019	**269.7**	**538.3**	**316.3**	**21.0**	**1,145.3**

Gross figures Depreciation and impairment	Land, lease-hold rights and buildings	Technical equip-ment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	Total
€ million					
Balance at Jan. 1, 2019	**102.7**	**435,7**	**223.8**	**0.0**	**762.2**
Currency translation differences	0.1	0.0	0.1	0.0	0.2
Depreciation	16.5	19.6	21.8	0.0	57.9
Reversals of impairment losses	–0.1	-0.1	–0.2	0.0	–0.4
Impairment	0.0	0.0	0.5	0.0	0.5
Disposals	0.0	–14.4	–7.9	0.0	–22.3
Reclassifications	0.0	0.0	0.0	0.0	0.0
Balance at Dec. 31, 2019	**119.2**	**440.8**	**238.1**	**0.0**	**798.1**
Net carrying amount at Dec. 31, 2019	**150.5**	**97.5**	**78.2**	**21.0**	**347.2**

Capital expenditure on property, plant and equipment (excluding right-of-use assets in connection with leases) mainly related to the set-up of the new assembly line in Cologne-Porz for engine series with a capacity of less than 4 liters, which we brought on stream in the third quarter, and to replacement investment in tools, equipment, and machinery. DEUTZ also invested in new and more efficient testing equipment.

Of the additions in 2020, a sum of €32.4 million was attributable to right-of-use assets in connection with leases (2019: €10.4 million). The capital expenditure on right-of-use assets was primarily attributable to the alliance under which Chinese manufacturer BEINEI is contracted to make DEUTZ diesel engines for the local market and to extensions of property leases. Detailed information about right-of-use assets in connection with leases can be found on page 142.

Total government grants recognized as at December 31, 2020 amounted to €4.1 million (December 31, 2019: €3.6 million). In 2020, grants of €1.0 million (2019: €0.6 million) were recognized in profit or loss (as a reduction of the depreciation expense).

Purchase commitments for property, plant and equipment are described on page 155.

13. INTANGIBLE ASSETS

Gross figures Cost of purchase/conversion	Goodwill	Internally generated intangible assets Completed	 In development	Other intangible assets	Total
€ million					
Balance at Jan. 1, 2020	**58.3**	**417.9**	**62.7**	**174.1**	**713.0**
Currency translation differences	0.0	0.0	0.0	–0.2	–0.2
Additions	0,1	2.3	10.3	11.3	24.0
Investment grants	0.0	0.0	0.0	0.0	0,0
Disposals	0.0	0.0	0.0	0.0	0.0
Changes to basis of consolidation	0.1	0.0	0.0	0.1	0.2
Reclassifications	–4.1	43.0	–43.0	4.1	0.0
Balance at Dec. 31, 2020	**54.4**	**463.2**	**30.0**	**189.4**	**737.0**

Gross figures Amortization and impairment	Goodwill	Internally generated intangible assets Completed	 In development	Other intangible assets	Total
€ million					
Balance at Jan. 1, 2020	**0.0**	**358.4**	**13.3**	**125.1**	**496.8**
Currency translation differences	0.0	0.1	0.0	–0.2	–0.1
Amortization	0.0	16.0	2.0	9.4	27.4
Impairment	0.0	10.8	0.0	5.0	15.8
Reversals of impairment losses	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.0	0.0	0.0	0.0	0.0
Balance at Dec. 31, 2020	**0.0**	**385.3**	**15.3**	**139.3**	**539.9**
Net carrying amount at Dec. 31, 2020	**54.4**	**77.9**	**14.7**	**50.1**	**197.1**

Gross figures Cost of purchase/conversion	Goodwill	Internally generated intangible assets Completed	 In development	Other intangible assets	Total
€ million					
Balance at Jan. 1, 2019	**48.0**	**411.7**	**47.2**	**164.1**	**671.0**
Currency translation differences	0.0	0.0	0.0	0.1	0.1
Additions	0.0	1.7	20.0	7.9	29.6
Investment grants	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Changes to basis of consolidation	10.3	0.0	0.0	2.0	12.3
Reclassifications	0.0	4.5	–4.5	0.0	0.0
Balance at Dec. 31, 2019	**58.3**	**417.9**	**62.7**	**174.1**	**713.0**

Gross figures Amortization and impairment	Goodwill	Internally generated intangible assets: Completed	Internally generated intangible assets: In development	Other intangible assets	Total
€ million					
Balance at Jan. 1, 2019	**0.0**	**341.7**	**8.8**	**116.9**	**467.4**
Currency translation differences	0.0	0,0	0.0	0.1	0.1
Amortization	0.0	18.1	0.0	8.1	26.2
Impairment	0.0	0.0	4.5	0.0	4.5
Reversals of impairment losses	0.0	-1.4	0.0	0.0	-1.4
Disposals	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.0	0.0	0.0	0.0	0.0
Balance at Dec. 31, 2019	**0.0**	**358.4**	**13.3**	**125.1**	**496.8**
Net carrying amount at Dec. 31, 2019	**58.3**	**59.5**	**49.4**	**49.0**	**216.2**

Other intangible assets mainly comprise grants for tool costs, rights and licenses, purchased development services, and software. The additions to other intangible assets mainly resulted from the purchase and implementation of software.

Capital expenditure on intangible assets was mainly in connection with the development of the new 5.2 engine series and the adaptation of our engines to meet EU Stage V, which is now in effect.

See the ‘Goodwill’ section below for information on the reclassification of €4.1 million from goodwill to other intangible assets.

The impairment of intangible assets in development relates to the capitalized development expenditure on new and upgraded engine series and a sales license, and is the result of changes in market forecasts and cost estimates due mainly to the pandemic. DEUTZ expects it to take around two years for its cash flow to return to pre-crisis levels. The impairment testing of these assets was carried out at the level of the cash-generating units that represent the engine series. The recoverable amounts determined on the basis of the values in use of these cash-generating units amounted to €17.5 million, €12.3 million, €8.4 million, €8.2 million, and minus €0.7 million respectively. The impairment loss recognized amounted to €15.7 million in 2020, of which €10.8 million is attributable to the DEUTZ Compact Engines segment and €4.9 million to the DEUTZ Customized Solutions segment. The respective pre-tax discount rates underlying the calculation were 7.0 percent, 8.4 percent, 9.4 percent, 14.9 percent, and 10.4 percent.

Goodwill

The table below shows the allocation of goodwill to the Group’s business units. The derecognition of a sum of €4.1 million resulted from the purchase price for DPS Power Group, which was acquired on December 27, 2019, being allocated to the acquired assets and liabilities in the reporting year. As part of the purchase price allocation (PPA), unrecognized intangible assets (long-term customer relationships) amounting to €5.3 million and corresponding deferred tax liabilities of €1.2 million were identified and reclassified to the relevant line items on the balance sheet.

The reclassifications related to goodwill of €5.7 million arising in connection with the acquisition of Futavis and to the goodwill of €0.6 million that remained after the purchase price for DPS Power Group had been allocated.

€ million	DEUTZ Compact Engines		DEUTZ Customized Solutions	Other		Not yet allocated	Total
	Product line <4 liters	Product line 4 to 8 liters		Torqeedo	Futavis		
Balance at Jan. 1, 2020	**39.7**	**0.0**	**0.0**	**8.3**	**0.0**	**10.3**	**58.3**
Additions	0.0	0.0	0.0	0,0	0.0	0.2	0.2
Disposals	0.0	0.0	0.0	0.0	0.0	–4.1	–4.1
Reclassifications	0.6	0.0	0.0	0.0	5.7	–6.3	0.0
Balance at Dec. 31, 2020	**40.3**	**0.0**	**0.0**	**8.3**	**5.7**	**0.1**	**54.4**

Goodwill was tested for impairment at the level of the business units ‘product line <4 liters’, ‘Torqeedo’, and ‘Futavis’ as these are the cash-generating units (CGUs) to which the goodwill has been allocated. The recoverable amounts of these business units were then offset against the carrying amounts of the business units including the allocated goodwill. The recoverable amount of a business unit is calculated by determining the value in use according to the discounted cash flow (DCF) method. Value in use was calculated by discounting estimated future cash flows to their present value. The calculation uses a discount rate that reflects current market expectations in respect of the time value of money and the risks inherent in the cash-generating unit. The cash flows used in the calculation were derived from the financial plan approved by senior management, which covers a five-year period. For the ‘product line <4 liters’ CGU, the detailed planning phase was extended by an additional rough planning period of two years in order to achieve a sustainable level prior to the transition to perpetuity. The cash flows beyond this period of five and seven years respectively were extrapolated based on a growth rate of 1.0 percent.

‘Product line <4 liters’ business unit:

In the planning period, total revenue in the ‘product line <4 liters’ business unit is generated mainly through the sale of diesel engines with capacities of less than 4 liters, which are the main products, and through the spare parts business (service). The planning is based both on market data from the Power System Research Database (PSR) and on a management estimate that is particularly focused on the potential of the E-DEUTZ business. Our revenue planning considered not only the anticipated performance of the market for diesel engines in our key application segments, but also global construction volumes and the trends in the construction industry in which our major customers operate. The construction industry is among those switching from diesel engines to electric motors because of the increasing regulation of emissions.

On the cost side, management is assuming that it will be possible to make additional savings in manufacturing costs per unit. This will be the result of economies of scale and an anticipated shift in the sales mix from more powerful to less powerful engine types. In its planning, management is assuming that the ratio of net working capital to revenue will remain stable.

The pre-tax cost of capital used for discounting was 9.6 percent (December 31, 2019: 10.4 percent). The discount rate was based on a risk-free interest rate of minus 0.2 percent (December 31, 2019: 0.2 percent) and a market risk premium of 7.75 percent (December 31, 2019: 7.5 percent). In addition, the beta factor, the cost of debt, and the capital structure were determined using a peer group specific to the business unit.

The impairment test carried out for the ‘product line <4 liters’ business unit verified the impairment of the goodwill allocated to this business unit.

‘Torqeedo’ business unit:

The market for electric motors in the automotive industry remains in a phase of expansion characterized by high growth rates. Technological innovations and stricter emissions standards mean that electric motors are increasingly being chosen over traditional internal combustion engines. Because of the possibility of certain electric motor technologies making the leap from the automotive sector to the marine industry, which in some cases has already happened, particularly in the case of batteries, Torqeedo’s management is working on the basis that a similar trend will soon emerge in the marine sector. The assumptions on which the budget figures are based for the ‘Torqeedo’ business unit therefore continue to include fast-rising demand for electric motors and hybrid drives.

On the cost side, management is assuming that manufacturing costs per unit will fall. In particular, this is because the bulk of the capital expenditure on infrastructure has largely been made. Management also expects further economies of scale to be reaped from the optimization and standardization of the production processes and rising learning curves. As in the prior year, management is assuming in its planning that the ratio of net working capital to revenue will fall. This is to be primarily achieved through improved inventory management.

The pre-tax cost of capital used for discounting was 13.6 percent (December 31, 2019: 13.2 percent). The discount rate was based on a risk-free interest rate of minus 0.2 percent (December 31, 2019: 0.2 percent) and a market risk premium of 7.75 percent (December 31, 2019: 7.5 percent). In addition, the beta factor, the cost of debt, and the capital structure were determined using a peer group specific to the business unit.

The impairment test carried out for the 'Torqeedo' business unit verified the impairment of the goodwill allocated to this business unit. A change in the material assumptions that is possible in the view of management would have the following impact on the recoverable amount of the 'Torqeedo' cash-generating unit:

Sensitivity analysis of recoverable amount – 'Torqeedo' CGU

Change in recoverable amount		Change in growth rate Terminal value (percentage points)		
€ million		**–0.5**	**0**	**+0.5**
	+1	–6.8	–5.8	–4.6
WACC change (percentage points)	**0**	–1.4	0.0	1.6
	–1	5.3	7.3	9.5

Excess/shortfall compared with the carrying amount of the CGU		Change in growth rate Terminal value (percentage points)		
€ million		**–0.5**	**0**	**+0.5**
	+1	–1.2	–0.2	1.0
WACC change (percentage points)	**0**	4.2	5.6	7.2
	–1	10.9	12.9	15.1

'Futavis' business unit:

Revenue in the 'Futavis' business unit in the planning period will be generated mainly through the sale of finished batteries and through long-term development projects with major customers. Particular account is taken of the growth of the overall market for batteries and battery components.

On the cost side, management is assuming that it will be possible to make additional savings in manufacturing costs per unit. This will mainly be the result of economies of scale. In its planning, management is assuming that the ratio of net working capital to revenue will fall. This is to be primarily achieved through improved inventory management.

The pre-tax cost of capital used for discounting was 14.1 percent. The discount rate was based on a risk-free interest rate of minus 0.2 percent and a market risk premium of 7.75 percent. In addition, the beta factor, the cost of debt, and the capital structure were determined using a peer group specific to the business unit.

The impairment test carried out for the 'Futavis' business unit verified the impairment of the goodwill allocated to this business unit.

Intangible assets with an indefinite useful life

As had been the case at the end of 2019, other intangible assets included the carrying amount of €7.0 million for the 'Torqeedo' brand purchased as part of the acquisition of the Torqeedo group of companies. Management continues to consider the 'Torqeedo' brand to have an indefinite useful life as there are no indications that the brand will be withdrawn. The intention is for the products made by the Torqeedo group of companies to carry on being marketed under the 'Torqeedo' brand.

14. EQUITY-ACCOUNTED INVESTMENTS

The shares held by the DEUTZ Group in associates and joint ventures, none of which are listed companies, are as follows:

€ million	**2020**	2019
Jan. 1	**51.1**	**2.1**
Additions	0.0	48.7
Pro-rata profit/loss on equity-accounted investments	1.4	0.7
Disposals	0.0	0.0
Impairment	0.0	0.0
Other changes arising from measurement using the equity method	–2.2	–0.4
Dec. 31	**50.3**	**51.1**

A summary of further financial information about associates and joint ventures is provided in Note 27 'Interests in other entities'.

15. OTHER FINANCIAL ASSETS (NON-CURRENT)

€ million	**Dec. 31, 2020**	Dec. 31, 2019
Equity investments	0.3	0.3
Non-current securities	3.6	3.7
Cost of borrowing	0.5	0.7
Other	0.0	0.3
Total	**4.4**	**5.0**

Equity investments

This item mainly related to the carrying amount of the investment in DEUTZ Engines (India) Private Limited, Pune, India. For reasons of materiality, this company is not consolidated.

Non-current securities

This line item on the balance sheet includes securities in the form of equities and bonds. The securities are used to hedge the pension obligations of the Group company DEUTZ Corporation, Atlanta, USA.

Cost of borrowing

The cost of borrowing directly associated with the working capital facility is accounted for as a non-current asset and is recognized in the income statement in installments over the capital commitment period. The financial debt (including the pro rata cost of borrowing) is recognized when the working capital facility is drawn down as a loan and is subsequently measured using the effective interest method.

16. DEFERRED TAXES, CURRENT TAX ASSETS AND LIABILITIES

At the balance sheet date, DEUTZ AG had unutilized tax losses carried forward of €809.0 million for corporation tax (2019: €751.0 million) and €921.2 million for trade tax (2019: €864.6 million). The figures disclosed in 2019 for tax loss carryforwards (corporation tax: €753.9 million; trade tax: €866.3 million) were restated following the submission of tax returns for 2018.

Further tax loss carryforwards were also available to international companies in the Group.

The following table gives a breakdown of the deferred tax assets and liabilities and the current tax assets and liabilities reported on the balance sheet:

€ million	**Dec. 31, 2020**	Dec. 31, 2019
Non-current		
Deferred tax assets	74.2	68.6
Deferred tax liabilities	0.6	0.8
Current		
Current tax assets	7.2	4.2
Liabilities arising from income taxes	2.0	2.7

In 2020, the deferred tax assets net of deferred tax liabilities amounted to €74.2 million. They were largely the result of capitalizing deferred tax assets on tax losses carried forward and of temporary differences, particularly those between the carrying amount of provisions for pensions and other post-retirement benefits on the consolidated balance sheet and their tax base in the financial statements at DEUTZ AG. Deferred tax assets from items recognized in other comprehensive income amounted to €26.0 million (December 31, 2019: €23.5 million) for provisions for pensions and other post-retirement benefits and minus €0.6 million (December 31, 2019: €0.1 million) for measurement of cash flow hedges and interest rate derivatives.

The following table shows the breakdown of deferred tax assets and liabilities:

€ million	**Dec. 31, 2020**		Dec. 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	0.0	36.4	0.0	41.4
Property, plant and equipment	1.2	12.6	1.5	11.5
Inventories	8.2	0.0	9.3	0.0
Receivables and other assets	2.0	0.7	3.2	0.8
Pensions	23.3	0.0	22.8	0.0
Other liabilities	41.2	0.3	25.2	2.7
Tax loss carryforwards	47.7	0.0	62.2	0.0
Deferred taxes (gross)	**123.6**	**50.0**	**124.2**	**56.4**
Netting	49.4	49.4	55.6	55.6
Deferred taxes (net)	**74.2**	**0.6**	**68.6**	**0.8**

The tax asset in excess of deferred tax liabilities – for which tax planning indicates sufficient taxable profit will be available in the future – amounted to €74.2 million (December 31, 2019: €68.6 million).

The increase in deferred taxes in respect of temporary differences, which was recognized in other comprehensive income, was €0.7 million at December 31, 2020 (December 31, 2019: €1.8 million) and largely resulted from changes in provisions for pensions.

As at December 31, 2020, the DEUTZ Group had not recognized any deferred tax liabilities on temporary differences of €29.9 million (December 31, 2019: €15.0 million) in respect of untransferred profits from subsidiaries, associates, or joint ventures because the timing of the reversal of the differences can be controlled or the sums are mostly tax exempt and no material impact on taxes is expected in the near future.

Deferred tax assets are only recognized to the extent that sufficient future taxable income is likely to be generated over a certain planning period against which the as yet unused tax loss carryforwards can be offset. Consequently, as well as tax loss carryforwards on which deferred taxes have been recognized, there are loss carryforwards for which deferred taxes have not been recognized because the losses cannot be utilized. The following table shows the amounts and expiry dates of the tax loss carryforwards on which deferred taxes have not been recognized:

Loss carryforwards on which deferred taxes have not been recognized

€ million	**Dec. 31, 2020**	Dec. 31, 2019
Corporation tax/solidarity surcharge	732.8	633.0
Trade tax	824.0	724.1

Thereof: expiry periods for German and international loss carryforwards

€ million	**Dec. 31, 2020**	Dec. 31, 2019
Up to 5 years	0.2	0.0
6 to 9 years	0.0	0.0
Indefinite		
Corporation tax/ solidarity surcharge	732.8	633.0
Trade tax	823.8	724.1

The figures disclosed in 2019 for loss carryforwards on which deferred taxes had not been recognized in full (corporation tax: €633.0 million, trade tax: €724.1 million) were restated following the submission of tax returns.

17. INVENTORIES

€ million	**Dec. 31, 2020**	Dec. 31, 2019
Raw materials, consumables, bought-in parts and spare parts	172.4	179.2
Work in progress	33.2	41.7
Finished goods	68.6	100.8
Total	**274.2**	**321.7**

Write-downs on raw materials, bought-in parts and spare parts totaled €9.5 million in the reporting year (2019: €5.1 million). As at December 31, 2020, the carrying amount of inventories written down to net realizable value was €60.6 million (December 31, 2019: €90.0 million).

The following table shows the change in the valuation allowance account for inventories:

€ million	**2020**	2019
Jan. 1	**41.2**	**43.1**
Changes	3.7	–1.9
Dec. 31	**44.9**	**41.2**

18. RECEIVABLES AND OTHER ASSETS

€ million	**Dec. 31, 2020**	Dec. 31, 2019
Trade receivables	118.6	155.9
Less write-downs	–4.8	–3.8
Trade receivables (net)	**113.8**	**152.1**
Other receivables and assets		
Trust account balance	0.0	48.3
Receivables arising from other taxes	5.3	5.9
Receivables remaining after sale of receivables	2.2	3.9
Receivables arising from investment grants	5.7	3.9
Receivables due from investments	0.6	0.3
thereof trade receivables	0.6	0.3
thereof other receivables	0.0	0.0
Receivables arising from income tax assets	7.2	4.2
Derivative financial instruments	2.0	0.4
Advances paid	0.1	1.9
Sundry other receivables	16.9	15.2
Total	**40.0**	**84.0**

As at December 31, 2020, the volume of receivables sold under factoring agreements was €107.1 million (December 31, 2019: €136.2 million). Essentially, all the opportunities and risks connected with title to the receivables that were sold were transferred to the factor. While the entire credit risk was transferred, a risk of late payment remains, but it is not material so the receivables were not reported in the consolidated financial statements of DEUTZ AG. The remaining exposure in respect of the receivables that have been assigned is largely limited to the administration and collection of these receivables. As at December 31, 2020, the Group had access to factoring lines totaling €225.0 million (December 31, 2019: €225.0 million). They are revolving lines. In 2020, interest expense of €0.8 million (2019: €0.9 million) was recognized in connection with the sale of receivables.

As at December 31, 2020, there were receivables amounting to €2.2 million due from one factor (December 31, 2019: €3.9 million) in connection with the sale of receivables. The fair value of these receivables was also €2.2 million (December 31, 2019: €3.9 million). The risk arising from the factoring transaction was the credit risk of the factor, which was lower than the credit risk of the original debtors. The maximum downside risk as at December 31, 2020 was limited to the amount receivable of €2.2 million (December 31, 2019: €3.9 million).

Trade receivables had been written down by an amount of €4.8 million as at December 31, 2020 (December 31, 2019: €3.8 million). The table showing the change in the valuation account can be found in Note 26 on page 145.

If other receivables or assets are found to be impaired, a direct write-down is applied to the relevant carrying amounts. Total impairment losses of €9.2 million were recognized on other receivables and assets as at December 31, 2020 (December 31, 2019: €9.9 million). The table showing the change in the valuation account can be found in Note 26 on page 146.

There were no contract assets arising from contracts with customers as at December 31, 2020 or as at December 31, 2019.

19. CASH AND CASH EQUIVALENTS

As at December 31, 2020, cash and cash equivalents including cash on hand, short-term deposits, and credit balances with banks amounted to €64.7 million (December 31, 2019: €55.3 million). There were no access restrictions, as had also been the case in the previous year.

20. EQUITY

€ million	**Dec. 31, 2020**	Dec. 31, 2019
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	–3.9	0.1
Retained earnings and accumulated income	201.1	314.3
Equity attributable to the shareholders of the parent	535.0	652.2
Non-controlling interests	0.2	0.2
Total	**535.2**	**652.4**

Issued capital

At the end of 2020, the issued capital (share capital) of DEUTZ AG amounted to €308,978,241.98 (unchanged on the end of 2019) and was divided into 120,861,783 no-par-value bearer shares (also unchanged).

Additional paid-in capital

The additional paid-in capital contains premiums and contributions from shareholders as well as the equity component of compound financial instruments such as non-interest-bearing convertible profit-sharing rights and low-interest-bearing convertible bonds. The value of the conversion right linked to previous profit-sharing rights and bonds was recognized in equity on the issue date at fair value less pro rata transaction costs, taking account of deferred taxes.

No such compound financial instruments were in issue, either in 2020 or in 2019.

Other reserves

Currency translation Translation differences allocated to the shareholders of DEUTZ AG arising from the translation of equity at historical rates and the translation of the net income or loss at average rates for the year are reported under accumulated other comprehensive income/loss. The cumulative loss on translation differences recognized in other reserves amounted to €4.9 million at the end of 2020 (December 31, 2019: gain of €0.5 million recognized).

Fair value reserve This reserve is used for the recognition of changes in the fair value of available-for-sale financial instruments. That portion of the gain or loss on a cash flow hedging instrument determined to be an effective hedge is also recognized in the fair value reserve.

Retained earnings and accumulated income

This item includes DEUTZ AG's legal reserve of €4.5 million (December 31, 2019: €4.5 million).

Non-controlling interests

The non-controlling interests relate to Mr. Glavan's 25 percent stake in the subsidiary DEUTZ Romania S.r.l., Galati, Romania. DEUTZ AG has an indirect interest in this company through DEUTZ Italy S.r.l.

Dividend

According to the German Stock Corporation Act (AktG), the dividend is paid from the accumulated income reported in the annual financial statements of DEUTZ AG prepared in accordance with the German Commercial Code (HGB). The dividend payment was suspended in 2020 due to the economic impact of the coronavirus pandemic.

Authorized capital

The Board of Management is authorized, subject to the consent of the Supervisory Board, to increase the issued capital of the Company on or before April 25, 2023 on one or more occasions in installments through the issue of up to 36,258,534 new no-par-value bearer shares for cash by up to a total amount of €92,693,470.30 (authorized capital I). Pre-emption rights must be granted to existing shareholders. Pursuant to section 203 (1) sentence 1 and section 186 (5) AktG, the new shares may be transferred to one or more banks or to a company operating under section 53 (1) sentence 1 or section 53b (1) sentence 1 or section 53b (7) KWG subject to an undertaking by the bank(s) or company to offer the shares to existing shareholders (indirect pre-emption right). However, the Board of Management is authorized, subject to the consent of the Supervisory Board, to disapply the pre-emption rights of shareholders for fractional amounts arising on the calculation of pre-emption rights.

21. PROVISIONS FOR PENSIONS AND OTHER POST-RETIREMENT BENEFITS

DEUTZ AG has both defined contribution plans and defined benefit plans for its employees.

Defined contribution plans

Employees in Germany receive statutory social insurance benefits for which contributions are paid as part of income. At DEUTZ, there are also further direct insurance policies that are financed by employees. These plans are treated as defined contribution plans because the Company has no obligation beyond the payment of contributions to private insurers. Ongoing contribution payments are reported as an expense for the period concerned.

The employer's contribution to the German statutory pension insurance scheme in 2020 came to €20.0 million (2019: €20.1 million). In addition, a further €2.0 million (2019: €2.0 million) was paid for pension and direct insurance policies in connection with deferred compensation.

Defined benefit plans

The DEUTZ Group maintains several defined benefit pension plans in Germany and abroad. The largest pension plans are in Germany and the UK. Together, they accounted for more than 95 percent of defined benefit obligations and 100 percent of plan assets, as had also been the case in 2019.

In all, there are four defined benefit pension plans in Germany. While three of the plans are employer funded, the fourth is a deferred compensation plan. As a rule, the employer-funded pension plans comprise a general employee retirement pension for life, a disability pension, and a surviving dependants' pension. The level of the monthly pension paid under the employer-funded pension plans is based on earned income and years of service in the DEUTZ Group. Since the pension plans were frozen in 1995, employees can no longer acquire any further employer-funded pension entitlements. In the case of the deferred compensation plan, the Company has taken out a reinsurance policy with a life insurance company based on the amount of salary contribution and undertakes to pay a pension based on the guaranteed capital that has been underwritten. In Germany, occupational pension schemes are governed by the Occupational Pensions Act (BetrAVG), according to which the DEUTZ Group has sole responsibility for meeting the requirements of defined benefit pension plans. The normal retirement age is 67.

The existing defined benefit plan in the UK entitles pension beneficiaries to a pension that depends on the level of their basic salary and the number of eligible years of service. However, since the pension plans were frozen in 2016, no employees can now acquire any further employer-funded pension entitlements. The retirement age is between 62 and 65. The annual pension paid is between 1/55 and 1/60 of the highest basic salary received in the final five years of service for each eligible year of service. The pension plan is primarily funded by converting pension beneficiaries' basic salary and employer contributions into plan assets. The DEUTZ Group undertakes to compensate for any shortfall in the scheme. Every year, the amount for which the Company is liable is determined with reference to a report by an independent pensions actuary.

According to legislation in the UK, the pension plan, including the plan assets, must be administered by independent trustees. The investment policy for the pension plan specifies that 50 percent of the accumulated plan assets must be invested in equity instruments and 50 percent in debt instruments. This investment strategy is specifically intended to counteract capital market risk and the associated risk of mismatches between the Company's payment obligations arising from the pension plan on the one hand and the plan assets on the other.

In connection with the defined benefit pension plans, the Group is exposed to capital market risk arising from its investment of the plan's assets in addition to general actuarial risks such as interest-rate risk, the risk of rising annuity rates, and longevity risk.

Funded status of pension plans

€ million	2020	2019
Pension plans in Germany		
Present value of defined benefit obligation	153.7	159.0
Fair value of plan assets	5.9	6.2
Deficit (net liability)	**147.8**	**152.8**
Pension plans in the UK		
Present value of defined benefit obligation	29.7	28.8
Fair value of plan assets	24.3	25.5
Deficit (net liability)	**5.4**	**3.3**
Other pension plans		
Present value of defined benefit obligation	7.2	7.5
Fair value of plan assets	0.0	0.0
Deficit (net liability)	**7.2**	**7.5**
Total		
Present value of defined benefit obligation	190.6	195.3
Fair value of plan assets	30.2	31.7
Deficit (net liability)	**160.4**	**163.6**

The following table shows the breakdown of separate groups to which the pension plans in Germany and the UK have obligations to pay benefits:

Breakdown of defined benefit obligation by beneficiary

€ million	2020	2019
Pension plans in Germany		
Active members	10.1	10.7
Deferred members	4.6	5.6
Pensioners	139.0	142.7
Present value of defined benefit obligation	**153.7**	**159.0**
Pension plans in the UK		
Active members	0.0	0.0
Deferred members	14.9	14.5
Pensioners	14.8	14.3
Present value of defined benefit obligation	**29.7**	**28.8**

The change in the net liability for defined benefit pension plans is shown in the table below:

Change in the net liability for defined benefit pension plans

€ million	2020	2019
Net liability as at Jan. 1	**163.6**	**165.8**
Amounts recognized in the income statement	1.1	2.3
Amounts recognized in other comprehensive income	8.6	8.3
Employer contributions	–0.4	–0.4
Pension benefits paid	–12.1	–12.5
Effects of changes in foreign exchange rates	–0.5	0.1
Other	0.1	0.0
Net liability as at Dec. 31	**160.4**	**163.6**

The following table shows the change in the present value of the defined benefit obligation:

Change in present value of defined benefit obligation

€ million	2020	2019
Defined benefit obligation as at Jan. 1	**195.3**	**193.1**
Service cost	0.0	0.1
Employee contributions	0.0	0.4
Interest expense	1.6	2.9
Unrecognized past service cost	0.0	0.0
Remeasurements	9.8	10.7
thereof: experience adjustments	–2.0	–1.9
thereof: actuarial (gains)/losses arising from changes in biometric assumptions	0.3	–0.6
thereof: actuarial (gains)/losses arising from changes in financial assumptions	11.5	13.2
Effects of changes in foreign exchange rates	–1.9	1.3
Pension benefits paid	–14.3	–13.2
Changes to basis of consolidation	0.1	0.0
Defined benefit obligation as at Dec. 31	**190.6**	**195.3**

At December 31, 2020, the weighted average life of the bulk of the defined benefit obligation was 9.6 years (December 31, 2019: 9.5 years).

The following two tables show the change in the fair value of the plan assets and the breakdown of the plan assets:

Change in fair value of plan assets

€ million	**2020**	2019
Fair value of plan assets at Jan. 1	**31.7**	**27.3**
Employer contributions	0.4	0.4
Employee contributions	0.0	0.4
Interest income	0.5	0.6
Return on (+)/expenses (–) from plan assets (excl. interest income)	1.2	2.5
Pensions paid from plan assets	–2.2	–0.7
Currency translation differences	–1.4	1.2
Other	0.0	0.0
Fair value of plan assets at Dec. 31	**30.2**	**31.7**

Breakdown of plan assets

€ million	**2020**	2019
Cash and cash equivalents	0.0	0.4
Equity instruments (by region)		
UK	3.6	3.7
Europe (excl. UK)	2.2	2.3
North America	2.7	2.8
Japan	1.1	1.1
Asia-Pacific	1.1	1.1
Other	1.5	1.6
	12.2	**12.6**
Debt instruments		
Government bonds	–15.3	4.2
Corporate bonds	–30.3	8.3
	–45.6	**12.5**
Reinsurance policies	5.9	6.2
Total	**–27.5**	**31.7**

Market prices were available for all the equity and debt instruments because they are traded in active markets.

The breakdown of the portions of the net pension cost recognized in current income and expense for 2020 and 2019 is as follows:

Net pension cost

€ million	**2020**	2019
Unrecognized past service cost	0.0	0.0
Net interest cost	1.1	2.3
Total	**1.1**	**2.3**

The actual return on plan assets in 2020 amounted to €1.7 million (2019: €3.1 million).

The measurement of pension obligations is based on actuaries' reports. The tables below show the main actuarial assumptions underlying the calculations for the defined benefit obligation as at the balance sheet date. The discount rates and pension increases are reported in the form of weighted averages.

Actuarial assumptions

%	**2020**	2019
Discount rate		
Germany	0.04	0.60
UK	1.40	2.10
Rate of pension increase		
Germany	1.75	1.75
UK	2.00	2.00

Mortality tables

Germany	Heubeck 2018G mortality tables
UK	S1 YoB (standard mortality tables for self-administered plans taking into account future changes in mortality)

The following sensitivity analysis for each material actuarial assumption as at the balance sheet date shows the impact that potential changes in the assumptions at the relevant balance sheet date would have on the defined benefit obligations in Germany and the UK.

Sensitivity analysis

2020	**Impact on defined benefit obligation of**	
€ million		
	0.5% rise	0.5% fall
in discount rate		
Germany	–6.8	7.4
UK	–3.0	3.0
in rate of pension increase		
Germany	7.2	–6.7
UK	2.4	–2.4

Sensitivity analysis

2019	**Impact on defined benefit obligation of:**	
€ million		
	0.5% rise	0.5% fall
in discount rate		
Germany	–6.8	7.6
UK	–2.4	2.6
in rate of pension increase		
Germany	7.4	–6.8
UK	2.1	–1.9

Furthermore, we also believe it is possible that the life expectancy of eligible DEUTZ employees will change. If the life expectancy of eligible DEUTZ employees had risen by one year, the increases in the defined benefit obligation arising from the pension plans in Germany and the UK as at December 31, 2020 would have been €16.9 million and €1.0 million respectively (December 31, 2019: €16.3 million and €0.9 million respectively).

The sensitivity calculations are based on the average duration of the pension obligations calculated as at November 30, 2020. In order to highlight the impact on the present value of the defined benefit obligations calculated as at December 31, 2020 separately, the calculations were carried out for each of the actuarial parameters deemed to be material and capable of changing.

Future cash flows

For 2021, the DEUTZ Group forecasts that its payments into pension plans will amount to €0.5 million (2020: €0.4 million). The following table shows the expected future benefit payments arising from defined benefit obligations:

Expected benefit payments

€ million	**Dec. 31, 2020**
2021	13.7
2022	13.3
2023	12.7
2024	12.2
2025	11.6
2026–2030	49.7

Expected benefit payments

€ million	**Dec. 31, 2019**
2020	13.1
2021	12.7
2022	12.1
2023	11.5
2024	10.9
2025–2029	46.2

22. OTHER PROVISIONS

The following table gives a breakdown of other provisions:

€ million	2020			2019		
	Total	**Residual term of up to 1 year**	**Residual term of more than 1 year**	Total	Residual term of up to 1 year	Residual term of more than 1 year
Warranties	48.3	35.5	12.8	57.6	37.9	19.7
Obligations to employees	27.3	7.9	19.4	24.7	16.3	8.4
Restructuring	19.3	16.3	3.0	3.1	0.1	3.0
Onerous contracts	15.9	15.9	0.0	4.4	4.4	0.0
Other	10.0	7.7	2.3	10.2	7.9	2.3
Total	**120.8**	**83.3**	**37.5**	**100.0**	**66.6**	**33.4**

Other provisions are recognized at their settlement value calculated as at the balance sheet date and take account of projected cost increases. Non-current provisions are discounted at a rate of 1.3 percent (December 31, 2019: 2.1 percent).

Other provisions cover all identifiable risks and other contingent liabilities. The main items are the cost of warranties and potential risks, provisions for restructuring, and provisions for obligations to employees and onerous contracts. In addition to the remaining obligations resulting from the program to optimize our network of sites, the provisions for restructuring predominantly related to the Transform for Growth restructuring program in an amount of €16.1 million. The provision mainly encompassed severance payment expenses and other costs that are directly related to the restructuring. The provisions of €11.1 million for pre-retirement part-time working arrangements as part of Transform for Growth were, as before, recognized under provisions for obligations to employees.

The following table shows the changes to other provisions in 2020:

€ million	Warranties	Obligations to employees	Restructuring	Onerous contracts	Other	**Total**
Jan. 1, 2020	**57.6**	**24.7**	**3.1**	**4.4**	**10.2**	**100.0**
Additions	5.4	23.1	16,2	11.5	2.3	58.5
Currency translation differences	–0.2	0.0	0.0	0.0	–0.3	–0.5
Amounts utilized	–2.0	–20.0	0.0	0.0	–2.2	–24.2
Reversals	–12.5	–1.5	0.0	0.0	0.0	–14.0
First-time consolidation/ deconsolidation	0.0	1.0	0.0	0.0	0.0	1.0
Dec. 31, 2020	**48.3**	**27.3**	**19.3**	**15.9**	**10.0**	**120.8**

23. FINANCIAL DEBT

€ million	**Dec. 31, 2020**				Dec. 31, 2019			
	Total	**Residual term of up to 1 year**	**Residual term of 1–5 years**	**Residual term of more than 5 years**	Total	Residual term of up to 1 year	Residual term of 1–5 years	Residual term of more than 5 years
Liabilities to banks	89.5	76.0	13.5	0.0	27.5	23.1	4.4	0.0
Lease liabilities	58.0	14.0	36.4	7.6	41.9	13.1	24.0	4.8
Other financial debt	1.1	0.2	0.8	0.1	1.1	0.2	0.9	0.0
Total	**148.6**	**90.2**	**50.7**	**7.7**	**70.5**	**36.4**	**29.3**	**4.8**

Liabilities to banks

Current liabilities to banks mainly comprised syndicated loans amounting to €65 million.

The syndicated working capital facility had been drawn down in an amount of €65.0 million as at December 31, 2020. This revolving line of credit for a total of €160 million provided by a consortium of banks is a floating-rate facility and is also unsecured. Its term runs until June 2024. DEUTZ has also had a further working capital facility of €150.0 million at its disposal since May 2020, although it has not used it so far. The term of this additional facility available to DEUTZ AG, which is provided by the Germany's KfW development bank among others, initially runs until November 15, 2021 but can be extended to May 15, 2022.

As part of the contractual terms for both loans, DEUTZ is obliged to comply with certain financial covenants (ratio of financial debt to equity and ratio of financial debt to EBITDA).

Banco Bilbao Vizcaya Argentaria has also granted loans via our Spanish subsidiary; they have a total remaining balance of €24.2 million. The fixed interest rates on the loans are 1.30 percent, 0.70 percent, and 0.65 percent. Because these loans of approximately €4.4 million have been used for capital expenditure in Spain, finance costs up to an interest rate of 3.0 percent and 1.0 percent respectively are reimbursed by the Spanish government as part of a subsidy program.

Lease liabilities

Reasons for the increase in lease liabilities include the acquisition of new subsidiaries and the commencement of production at our strategic partner BEINEI. Further details about the right-of-use assets and lease liabilities recognized can be found on page 142 onward of these notes to the financial statements.

Other financial debt

Other financial debt comprises an interest-free government loan.

The fair value of financial debt is described in Note 26 on page 150.

The weighted average interest rates (after hedging) of the financial debt are:

%	**Dec. 31, 2020**	Dec. 31, 2019
Liabilities to banks	1.57	1.31
Lease liabilities	2.41	2.31
Other financial debt	**0.00**	**0.00**

All of the liabilities to banks and all of the other financial debt were denominated in euros. Most of the current and non-current lease liabilities were denominated in euros, US dollars, or renminbi.

The level of financial debt changed as follows over the course of 2020:

			Non-cash changes				
€ million	**Jan. 1, 2020**	Cash changes	Acqui-sition of companies	Exchange rate effects	Fair value changes	Other changes	**Dec. 31, 2020**
Non-current financial debt							
Liabilities to banks	4.4	11.5				–2.4	13.5
Lease liabilities	28.8		0.7	–0.7		15.2	44.0
Other financial debt	0.9					–0.1	0.8
Total non-current financial debt	**34.1**	**11.5**	**0.7**	**–0.7**	**0.0**	**12.7**	**58.3**
Current financial debt							
Liabilities to banks	23.1	49.3				3.6	76.0
Lease liabilities	13.1	–14.6	0.1	–0.5		15.9	14.0
Other financial debt	0.2	–0.2				0.2	0.2
Total current financial debt	**36.4**	**34.5**	**0.1**	**–0.5**	**0.0**	**19.7**	**90.2**
Total financial debt	**70.5**	**46.0**	**0.8**	**–1.2**	**0.0**	**32.4**	**148.5**

					Non-cash changes				
€ million	Dec. 31, 2018	Initial application of IFRS 16	**Jan. 1, 2019**	Cash changes	Acqui-sition of companies	Exchange rate effects	Fair value changes	Other changes	**Dec. 31, 2019**
Non-current financial debt									
Liabilities to banks	18.2		18.2	2.3				–16.1	4.4
Lease liabilities		29.7	29.7		2.4	0.3		–3.6	28.8
Other financial debt	1.1		1.1					–0.2	0.9
Total non-current financial debt	**19.3**	**29.7**	**49.0**	**2.3**	**2.4**	**0.3**	**0.0**	**–19.9**	**34.1**
Current financial debt									
Liabilities to banks	19.6		19.6	–11.9				15.4	23.1
Lease liabilities		11.5	11.5	–14.5	0.1	0.1		15.9	13.1
Other financial debt	0.2		0.2	–0.2				0.2	0.2
Total current financial debt	**19.8**	**11.5**	**31.3**	**–26.6**	**0.1**	**0.1**	**0.0**	**31.5**	**36.4**
Total financial debt	**39.1**	**41.2**	**80.3**	**–24.3**	**2.5**	**0.4**	**0.0**	**11.6**	**70.5**

24. TRADE PAYABLES AND OTHER LIABILITIES

€ million	Dec. 31, 2020	Dec. 31, 2019
Trade payables	**153.0**	**180.6**
Other liabilities		
Personnel-related liabilities	11.0	15.2
Price reduction liabilities	15.2	11.1
Advances received	4.4	5.6
Liabilities to investments	3.0	51.7
Liabilities arising from other taxes	4.3	2.6
Derivative financial instruments	0.0	0.6
Sundry other liabilities	22.1	43.8
Total	**60.0**	**130.6**

The decline in liabilities to investments was mainly attributable to the payment of the purchase consideration for the shares in the joint venture Hunan DEUTZ Power Co., Ltd that was made in 2020 but still outstanding in 2019.

The other liabilities include current contract liabilities arising from contracts with customers:

€ million	Dec. 31, 2020	Dec. 31, 2019
Liabilities from discounts granted	15.2	11.1
Advances received	4.4	5.6
Total	**19.6**	**16.7**

In the reporting period, revenue of €2.7 million was recognized that, at the beginning of the reporting period, had been included as advances received in the balance of contract liabilities (2019: €4.2 million).

The Company had unfulfilled performance obligations amounting to €0.1 million as at the reporting date (December 31, 2019: no significant unfulfilled performance obligations).

NOTES TO THE CASH FLOW STATEMENT

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, short-term deposits, and credit balances held with banks.

Dividend income of €0.5 million was included in cash flow from operating activities (2019: €0.5 million).

Cash and cash equivalents had risen by €9.4 million to €64.7 million at the end of 2020 (December 31, 2019: €55.3 million).

SEGMENT REPORTING

The following table provides an overview of the segments in the DEUTZ Group for 2020 and 2019.

2020	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	**Total segments**	Consolidation	**DEUTZ Group**
€ million						
External revenue	943.8	310.1	41.7	**1,295.6**	0.0	**1,295.6**
Intersegment revenue	0.0	0.0	2.7	**2.7**	–2.7	**0.0**
Total revenue	**943.8**	**310.1**	**44.4**	**1,298.3**	**–2.7**	**1,295.6**
Depreciation and amortization	74.8	9.4	5.0	**89.2**	0.0	**89.2**
Impairment of property, plant and equipment and intangible assets	17.0	0.2	0.0	**17.2**	0.0	**17.2**
Reversals of impairment losses on property, plant and equipment and intangible assets	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Profit/loss on equity-accounted investments	1.4	0.0	0.0	**1.4**	0.0	**1.4**
Income from the reversal of provisions	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Operating profit/loss (EBIT before exceptional items)	–80.5	18.7	–12.9	**–74.7**	0.0	**–74.7**

2019	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	**Total segments**	Consolidation	**DEUTZ Group**
€ million						
External revenue	1,446.4	362.5	31.9	**1,840.8**	0.0	**1,840.8**
Intersegment revenue	0.0	0.0	3.6	**3.6**	–3.6	**0.0**
Total revenue	**1,446.4**	**362.5**	**35.5**	**1,844.4**	**–3.6**	**1,840.8**
Depreciation and amortization	70.2	9.5	4.5	**84.2**	0.0	**84.2**
Impairment of property, plant and equipment and intangible assets	1.5	3.5	0.0	**5.0**	0.0	**5.0**
Reversals of impairment losses on property, plant and equipment and intangible assets	–1.8	0.0	0.0	**–1.8**	0.0	**–1.8**
Profit/loss on equity-accounted investments	0.7	0.0	0.0	**0.7**	0.0	**0.7**
Income from the reversal of provisions	0.1	0.0	0.4	**0.5**	0.0	**0.5**
Operating profit/loss (EBIT before exceptional items)	57.7	42.8	–21.7	**78.8**	0.0	**78.8**

Reconciliation from overall profit of the segments to net income

€ million	2020	2019
Overall profit of the segments	**–74.7**	**78.8**
Consolidation	0.0	0.0
Operating profit (EBIT before exceptional items)	**–74.7**	**78.8**
Exceptional items	–31.9	9.3
EBIT	**–106.6**	**88.1**
Financial income, net	–4.0	–13.0
Net income before income taxes	**–110.6**	**75.1**
Income taxes	3.0	–22.8
Net income	**–107.6**	**52.3**

External segment reporting is based on intragroup corporate management and internal financial reporting and, in line with the nature of the products and services offered, covers the following reportable operating segments:

DEUTZ Compact Engines This segment comprises new business, the servicing of liquid-cooled engines with capacities of up to 8 liters, and the joint venture with SANY, which is accounted for under the equity method.

DEUTZ Customized Solutions This segment focuses on liquid-cooled engines with capacities exceeding 8 liters and on air-cooled drives. It also includes reconditioned exchange engines and parts produced under the name DEUTZ Xchange, along with engine series that are soon to be discontinued.

Other This segment includes the business with electric and hybrid drive systems for marine applications, which is operated under the Torqeedo brand, and the development of battery management hardware and software. It also contains operations that do not belong in any other segment.

Consolidation Where relevant, the consolidation table also shows the elimination of intercompany relationships between the segments. Intercompany revenue of €2.7 million was eliminated in the reporting year (2019: €3.6 million).

The designation of a business area as an operating segment is based on internal reporting by segment regularly used by the Board of Management to monitor performance and allocate resources. When the DEUTZ Compact Engines reporting segment was defined, the operating segments 'product line <4 liters' and 'product line 4 to 8 liters' were grouped together to form the 'DEUTZ Compact Engines' reportable segment due to their similar economic characteristics and the aggregation criteria in IFRS 8.12. The product program of the 'product line <4 liters' comprises new business and the servicing of liquid-cooled engines with capacities of up to 4 liters. The 'product line 4 to 8 liters' also consists of new business plus the servicing of liquid-cooled engines with capacities of 4 to 8 liters. The economic characteristics of the two product lines were deemed to be similar on the basis of their future levels of return on revenue.

The measurement principles applied to the DEUTZ Group's segment reporting are based on the IFRS principles applied in the consolidated financial statements. The Board of Management, in its capacity as the senior decision-making body, assesses the performance of the segments in terms of their operating profit (EBIT before exceptional items). If entities included in the consolidated financial statements using the equity method are directly attributable to a particular segment, the relevant share of the net income or loss for the period is reported under that segment. Finance costs, financial income, and income taxes are reported for the DEUTZ Group as a whole and are not allocated to individual operating segments. External revenue constitutes the revenue that the segments generate from their customers. Revenue generated between segments – where relevant – is reported as intersegment revenue. Transfers between segments are reported at fair value.

Information about products and services

€ million	2020	2019
Engines	762.4	1,271.1
Service	181.4	175.3
DEUTZ Compact Engines	**943.8**	**1,446.4**
Engines	143.2	185.4
Service	166.9	177.1
DEUTZ Customized Solutions	**310.1**	**362.5**
Engines	42.7	34.5
Miscellaneous	1.7	1.0
Other	**44.4**	**35.5**
Consolidation	–2.7	–3.6
Total	**1,295.6**	**1,840.8**

Geographical information about external revenue

€ million	2020	2019
Germany	**241.6**	**310.7**
Outside Germany	**1,054.0**	**1,530.1**
Rest of Europe	532.8	776.8
Middle East	19.8	13.8
Africa	35.0	40.6
Americas	222.5	404.3
Asia-Pacific	243.9	294.6
Total	**1,295.6**	**1,840.8**

Of the European countries outside Germany, Switzerland accounted for €165.3 million in the reporting year (2019: €196.9 million), Sweden for €92.0 million (2019: €101.5 million), and France for €69.4 million (2019: €134.9 million).

Two customers each accounted for at least 10 percent of our total revenue in 2020 (2019: one customer). The revenue from these customers amounted to €237.4 million and €154.1 million respectively (2019: €265.7 million) and was reported predominantly in the DEUTZ Compact Engines segment.

Geographical information about non-current assets

€ million	**Dec. 31, 2020**	Dec. 31, 2019
Germany	474.5	497.6
Outside Germany	134.7	116.9
Total	**609.2**	**614.5**

The non-current assets comprise property, plant and equipment, goodwill, miscellaneous intangible assets, and equity-accounted investments. They are presented by location of the consolidated entity. The decrease in non-current assets in Germany was mainly due to the impairment of intangible assets. The increase in non-current assets outside Germany was mainly due to the addition of right-of-use assets in connection with leases.

OTHER INFORMATION

25. LEASES

The DEUTZ Group only has leases in which it acts as lessee for land and buildings (used for office space, warehousing, and manufacturing), technical equipment and machines, office furniture and equipment, and vehicles. It has also entered into short-term leases with a total term of no more than twelve months and leases where the value of the underlying assets does not exceed €5,000. A practical expedient has been applied to these leases, as a result of which the lease payments under these leases are recognized as an expense on a straight-line basis over the term of the lease.

The following table shows the carrying amounts of the right-of-use assets and changes over the reporting period:

Right-of-use assets

€ million	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	**Total**
Balance at Jan. 1, 2020	**34.1**	**0.9**	**6.4**	**–**	**41.4**
Currency translation differences	–0.7	0.0	0.0	–	–0.7
Additions	12.9	13.3	6.1	–	32.3
Disposals	–0.6	0.0	–0.4	–	–1.0
Changes to basis of consolidation	0.8	0.0	0.0	–	0.8
Reclassifications	0.0	0.0	0.0	–	0.0
Depreciation and impairment	–11.6	–0.8	–3,2	–	–15.6
Balance at Dec. 31, 2020	**34.9**	**13.4**	**8.9**	**–**	**57.2**

Right-of-use assets

€ million	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Advances paid and construction in progress	**Total**
Balance at Jan. 1, 2019	**32.9**	**1.6**	**6.7**	**–**	**41.2**
Currency translation differences	0.3	0.0	0.0	–	0.3
Additions	8.2	0.1	2.1	–	10.4
Disposals	–0.6	0.0	–0.2	–	–0.8
Changes to basis of consolidation	2.5	0.0	0.0	–	2.5
Reclassifications	1.7	0.0	0.0	–	1.7
Depreciation and impairment	–10.9	–0.8	–2.2	–	–13.9
Balance at Dec. 31, 2019	**34.1**	**0.9**	**6.4**	**–**	**41.4**

In the reporting period, the total cash outflow for leases (including payments for short-term leases and low-value leased assets) was €17.0 million (2019: €16.4 million).

The following amounts were recognized in profit or loss in 2020:

€ million	2020	2019
Depreciation of right-of-use assets	15.6	13.9
Interest paid on lease liabilities	1.1	1.0
Expense for short-term leases	0.5	0.8
Expense for leases with low-value assets	0.8	1.1
Total amount recognized in profit or loss	**18.0**	**16.8**

A number of leases contain extension and/or termination options. These options provide the flexibility to adjust the leasing portfolio in the event of changed business requirements. Assessing the probability of the options being exercised requires significant judgments to be made. If, taking all facts and circumstances into account, the exercising of the options is regarded as highly probable, the options are deemed exercisable. In the event that facts or circumstances change, the probability of the options being exercised has to be reassessed. Until then, the liability recognized is deemed the best indicator of the future cash outflows. Details of future cash outflows in connection with leasing are presented in Note 26.

As at the balance sheet date, there was one material lease in the asset class 'other equipment, furniture and fixtures' that was signed but not yet recognized. This will give rise to future payments of €1.5 million. As at the balance sheet date there were no unrecognized residual value guarantees that may give rise to possible cash payments in the future. The leases entered into do not contain any clauses that restrict DEUTZ or require it to comply with certain key financial performance indicators. There were no variable lease payments in the reporting period. Furthermore, no right-of-use assets were subleased and no sale and leaseback transactions were entered into. The balance of short-term leases was zero as at December 31, 2020. The expense for short-term leases amounted to €0.5 million in the reporting period (2019: €0.8 million). An overview of the terms of the lease liabilities are shown in Note 23.

Extension options that were not factored into the measurement of lease liabilities because it is not reasonably certain that they will be exercised could result in future cash outflows of €7.1 million. Most of these options relate to property leases with extension options of up to 15 years. Termination options that were not factored into the measurement of lease liabilities because it is not reasonably certain that they will be exercised could, if exercised, result in termination penalties of €0.2 million.

26. FINANCIAL RISK MANAGEMENT AND ADDITIONAL INFORMATION ON CAPITAL MANAGEMENT

Owing to its global business operations, the DEUTZ Group is exposed to various financial risks that can arise from adverse movements and trends in the international sales, procurement, interest-rate, and foreign-exchange markets. Information about the principles of risk management with regard to financial instruments can be found in the risk report on pages 59 to 65 of the DEUTZ Group's combined management report.

a) Liquidity risk

Prudent liquidity management includes the holding of a sufficient reserve of cash and cash equivalents, the option of obtaining funding through bank loans, and the ability to issue short-term and long-term capital market instruments. Because the business environment is constantly changing, the Treasury department aims to ensure that it has sufficient unused credit lines at its disposal at all times.

The management of liquidity risk in the DEUTZ Group has a number of components: annual planning with interim updates, rolling four-week planning updated weekly, and monthly planning updated monthly up to the end of the financial year. Liquidity risk is also assessed in the regular meetings of the Finance Committee.

In order to ensure sufficient liquidity, DEUTZ has at its disposal a syndicated, revolving cash credit line amounting to €160 million that runs until June 2024 and a working capital facility of €150.0 million that runs until November 15, 2021. The term of the working capital facility can be extended to May 15, 2022. As part of the loan agreements, the Company is required to comply with certain covenants.

The liquidity analysis also provides information about contractually agreed interest payments and capital repayments in connection with financial liabilities as at the balance sheet date. As far as the utilization of revolving credit facilities was concerned, it was assumed that the amounts already drawn down by the balance sheet date would continue to apply until the facilities expire.

Dec. 31, 2020	2021 cash payments	2022–2025 cash payments	> 2025 cash payments	Total
€ million				
Lease liabilities	**–15.3**	**–39.0**	**–7.8**	**–62.1**
Primary financial instruments	**–76.6**	**–13.6**	**0.0**	**–90.2**
Derivative financial instruments	**0.0**	**0.0**	**0.0**	**0.0**
Currency derivatives				
thereof settled gross: cash payments	–4.9	0.0	0.0	–4.9
thereof settled gross: cash receipts	4.9	0.0	0.0	4.9
thereof settled net	0.0	0.0	0.0	0.0
Interest rate derivatives				
Presentation of net cash flow	0.0	0.0	0.0	0.0

Dec. 31, 2019	2020 cash payments	2021–2024 cash payments	> 2024 cash payments	Total
€ million				
Lease liabilities	**–14.0**	**–25.5**	**–5.2**	**–44.7**
Primary financial instruments	**–315.7**	**–6.2**	**0.0**	**–321.9**
Derivative financial instruments	**–0.6**	**0.0**	**0.0**	**–0.6**
Currency derivatives				
thereof settled gross: cash payments	–32.5	0.0	0.0	–32.5
thereof settled gross: cash receipts	31.7	0.0	0.0	31.7
thereof settled net	0.2	0.0	0.0	0.2
Interest rate derivatives				
Presentation of net cash flow	0.0	0.0	0.0	0.0

b) Credit risk

The credit risk arises in relation to cash and cash equivalents, to the contractual cash flows from debt instruments measured at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss, and to derivatives with a positive market value.

There are no significant concentrations of potential credit risk in the DEUTZ Group. With regard to cash and cash equivalents, DEUTZ works only with selected banks with at least an investment-grade rating. The risk from bad debts is restricted by constant monitoring and regular analysis of receivables and their breakdown. Receivables are to a large extent covered by credit insurance. Further measures, such as guarantees and creditworthiness checks, are used to protect against credit risk. The Group has also put in place procedures and guidelines to ensure that products and services are only sold to customers who have a satisfactory payment record. The maximum credit risk exposure is limited to the carrying amount in the case of trade receivables and other financial assets such as cash and cash equivalents, available-for-sale financial assets, and derivative financial instruments. Credit risk in connection with financial instruments is limited by careful selection of counterparties.

The bulk of the DEUTZ Group's trade receivables are insured with the EULER HERMES Group. There is usually an obligation to the trade credit insurance association (WKV) or, where applicable, the German government's export credit guarantee scheme (APG) to meet defaults on the receivables unless they are secured by letters of credit confirmed by a bank or similar instruments. DEUTZ does not produce any standardized credit rating for its customers itself but usually sets the maximum customer exposure in accordance with the level of cover provided by the credit insurance agency. In addition, we have received collateral in the form of payment guarantees amounting to €1.0 million (December 31, 2019: €1.1 million) for foreign trade receivables.

Impairment of financial assets

The model of expected credit losses is applied to the following types of financial assets in the Group:

- Trade receivables
- Debt instruments measured at amortized cost
- Debt instruments measured at fair value through other comprehensive income.

Although cash and cash equivalents are also subject to the impairment rules of IFRS 9, the identified impairment loss was negligible.

1. Trade receivables

The Group applies the simplified approach in line with IFRS 9 to calculate the expected credit losses. Under this approach, the lifetime expected credit losses are calculated for all unsold trade receivables measured at amortized cost. Expected losses on receivables not sold under factoring agreements and not insured are calculated using the current external credit ratings of the relevant debtors, taking into account the Group's own experience. The individual receivables are initially assigned to one of two categories on the basis of defined criteria such as credit rating or age structure. For category 1 receivables, which according to the defined criteria have a lower credit risk, the default rates assigned to the credit ratings are used to calculate the expected losses. Category 2 receivables have a higher level of risk according to the criteria and a specific value adjustment is recognized.

Impairment losses on trade receivables that were identified using this method were as follows:

Dec. 31, 2020	Category 1	Category 2	**Total**
€ million			
Gross carrying amount of trade receivables	105.4	7.1	**112.5**
Impairment	0.9	3.9	**4.8**

Dec. 31, 2019	Category 1	Category 2	**Total**
€ million			
Gross carrying amount of trade receivables	141.5	4.4	**145.9**
Impairment	0.8	3.0	**3.8**

The following tables show the changes in impairment losses on trade receivables in 2020 and 2019:

€ million	
Jan. 1, 2020	**3.8**
Changes to basis of consolidation	0.0
Additions	1.8
Utilized	–0.6
Reversals	–0.2
Dec. 31, 2020	**4.8**

€ million	
Jan. 1, 2019	**3.7**
Changes to basis of consolidation	0.1
Additions	0.5
Utilized	–0.4
Reversals	–0.1
Dec. 31, 2019	**3.8**

Trade receivables are derecognized when it is reasonable to assume that they are no longer realizable. A debtor refusing to agree on a repayment plan with the Group or a debtor filing for insolvency are among the indicators that a receivable is unlikely to be realized.

Impairment losses on trade receivables are recognized in operating profit for the current period under 'write-downs of financial assets'. The same line item is used to recognize amounts received in subsequent periods that had previously been written down.

2. Debt instruments measured at amortized cost

Debt instruments measured at amortized cost comprise current individual items such as receivables due from factoring companies for receivables remaining after the sale of receivables or receivables due from suppliers as a result of discounts or bonuses. The receivables are tested for impairment on an individual basis. A debtor refusing to agree on a repayment plan with the Group or a debtor filing for insolvency are among the indicators that a receivable is unlikely to be realized. The risk of non-performance was very low, because the issuer is always able to meet its contractual payment obligations at short notice. The impairment loss identified in the reporting period was therefore insignificant. The existing impairment losses relate to receivables of €9.2 million due from investments as a result of older items (December 31, 2019: €10.2 million).

The following tables show the changes in impairment losses on debt instruments measured at amortized cost in 2020 and 2019:

€ million	Level 1	Level 3
Jan. 1, 2020	**0.0**	**9.9**
Additions	0.0	0.0
Utilized	0.0	–0.7
Reversals	0.0	0.0
Dec. 31, 2020	**0.0**	**9.2**

€ million	Level 1	Level 3
Jan. 1, 2019	**0.0**	**14.7**
Additions	0.0	0.0
Utilized	0.0	–4.8
Reversals	0.0	0.0
Dec. 31, 2019	**0.0**	**9.9**

The gross carrying amounts of debt instruments assigned to Level 1 amounted to €14.6 million as at December 31, 2020 (December 31, 2019: €62.1 million) and showed no signs of increased credit risk. The gross carrying amounts of debt instruments assigned to Level 3 amounted to €9.2 million as at December 31, 2020 (December 31, 2019: €10.2 million), all of which (€9.2 million) was written down (December 31, 2019: €9.9 million).

3. Debt instruments measured at fair value through other comprehensive income

The assets referred to here are units in a fund that is invested in exchange-traded debt instruments. Because their credit risk is classified as low, the calculation of the impairment loss is limited to the expected twelve-month credit losses. Management considers the criterion of 'low credit risk' to be met in the case of direct or indirect investments in exchange-traded debt instruments that, as a minimum, have an investment-grade credit rating. The volume of such debt instruments was very small as at December 31, 2020 and the credit risk was low. The impairment loss identified was therefore insignificant.

Financial assets measured at fair value through profit or loss

The DEUTZ Group is also exposed to credit risk arising from debt instruments and equity instruments measured at fair value through profit or loss. The debt instruments relate, on the one hand, to a loan granted to a supplier and, on the other, to trade receivables that have been earmarked for factoring. This loan was recognized at a fair value of zero as at December 31, 2019, because insolvency proceedings had been opened for the borrower. At the end of the reporting period, the maximum credit risk was limited to the carrying amounts of the debt instruments, which was zero in the case of the loan and €6.1 million in the case of the trade receivables. The equity instruments are units in a fund that is invested in publicly listed shares in order to hedge pension obligations. Here too, the maximum credit risk was limited to the carrying amount of the units (€2.2 million).

Currency risk

The DEUTZ Group operates internationally and, consequently, is exposed to currency risk arising from fluctuating exchange rates, principally US dollar exchange rates. Exchange-rate risks are monitored under a centralized currency management system and mitigated by the use of hedging transactions. The Treasury department uses hedges, primarily currency forwards, to hedge currency risk emanating from the net position of estimated future cash flows in foreign currency. Between 50 percent and 80 percent of the net positions anticipated in the budget for the year are usually hedged.

DEUTZ also takes specific action to increase the volume of purchasing in US dollars; this enables the Company to counteract currency risk arising from sales invoiced in US dollars by creating a natural hedge. Risks arising from the translation of financial statements of subsidiaries prepared in currencies other than the euro are not hedged.

Currency sensitivity analysis

The following tables illustrate the sensitivity – from a Group perspective – to a 10 percent rise or fall in the euro against the different currencies. The sensitivity analysis only takes into account outstanding monetary positions denominated in foreign currency and adjusts the period-end translation of those amounts to reflect a 10 percent change in the exchange rate. The positions involved include currency forward contracts that form part of an effective cash flow hedge, the purpose of which is to hedge fluctuations in foreign-currency payments and receipts caused by changes in exchange rates. Because hedging transactions are measured at fair value, changes in the exchange rates for the currencies underlying these transactions have an impact on the hedging reserve in other comprehensive income. Other positions involved are currency forward contracts that are no longer used as hedges. Changes in the exchange rates for the currencies underlying these financial instruments result in gains or losses due to restating these instruments at their fair value. Primary instruments (trade receivables and trade payables) denominated in foreign currency and outstanding as at the balance sheet date are also included in the sensitivity analysis. Changes in the exchange rates for the currencies underlying these items result in gains or losses when they are marked to market.

The following tables show the impact on net income and on equity if the euro rises or falls by 10 percent against relevant foreign currencies.

Cash payments and receipts are shown as net amounts under 'notional amounts'.

Euro rises by 10 percent

€ million

2020	Notional amounts	Impact on net income	Notional amounts	Impact on equity
USD	76.9	–6.7	31.2	2.8
CNY	13.6	–1.2	0.0	0.0
MAD	7.3	–0.7	0.0	0.0

€ million

2019	Notional amounts	Impact on net income	Notional amounts	Impact on equity
USD	125.2	–10.6	57.8	4.9
CNY	19.1	–1.7	0.0	0.0
MAD	7.0	–0.6	0.0	0.0

Euro falls by 10 percent

€ million

2020	Notional amounts	Impact on net income	Notional amounts	Impact on equity
USD	76.9	8.2	31.2	–3.4
CNY	13.6	1.5	0.0	0.0
MAD	7.3	0.8	0.0	0.0

€ million

2019	Notional amounts	Impact on net income	Notional amounts	Impact on equity
USD	125.2	13.0	57.8	–6.2
CNY	19.1	2.1	0.0	0.0
MAD	7.0	0.8	0.0	0.0

Interest-rate risk and sensitivity analysis

The DEUTZ Group is exposed to risk from interest rate changes, primarily in relation to floating-rate loans and other debt. As at December 31, 2020, there were no material loans or other debt exposed to interest-rate risk.

Capital management

The DEUTZ Group manages its capital with the primary objective of supporting business operations and ensuring the continued existence of the Company as a going concern over the long term. A healthy financial structure is necessary to assure the required flexibility in the provision of financial resources. At present, no credit rating has been set for DEUTZ. However, the DEUTZ Group is endeavoring to achieve a balance-sheet structure that meets the requirements for an investment-grade rating. Capital management therefore extends to both equity and debt.

DEUTZ is not subject to capital requirements under its Statutes. However, it is under an obligation toward the banks from which it has obtained loans to ensure that its ratio of net financial debt to equity does not exceed a certain level. This external requirement has been integrated into capital management and was met at all times.

As at the balance sheet date, the net financial position (cash and cash equivalents less interest-bearing financial debt) was minus €83.8 million, which equated to a year-on-year fall of €68.6 million (December 31, 2019: minus €15.2 million). In addition to the net financial position, free cash flow (defined as cash flow from operating activities and investing activities less interest payments) is an essential part of active capital management and is used as a key figure to show changes in the liquidity situation. The free cash flow from continuing operations was minus €35.8 million in 2020 (2019: minus €36.6 million).

The equity ratio is another indicator used by the DEUTZ Group to monitor its capital. This indicator reflects the ratio of total assets to Group equity as reported on the consolidated balance sheet. As at December 31, 2020, the equity ratio for the DEUTZ Group was 45.3 percent (December 31, 2019: 50.1 percent) and therefore remained at a high level and met all internal targets in full.

Financial instruments

The following tables show 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)

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 (assets)

Dec. 31, 2019	**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**	**2.2**	**1.3**	**5.0**
Current financial assets	**259.8**	**0.2**	**10.2**	**21.2**	**291.4**
Trade receivables	142.1	0.0	10.0	0.0	152.1
Other receivables and assets	62.4	0.2	0.2	21.2	84.0
Cash and cash equivalents	55.3	0.0	0.0	0.0	55.3

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 in 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

Financial instruments (liabilities)

Dec. 31, 2019	**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 in other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial liabilities	**7.0**	**0.0**	**3.1**	**29.7**	**39.8**
Financial debt	5.3	0.0	0.0	28.8	34.1
Lease liabilities	0.0	0.0	0.0	28.8	28.8
Miscellaneous financial debt	5.3	0.0	0.0	0.0	5.3
Other liabilities	1.7	0.0	3.1	0.9	5.7
Current financial liabilities	**317.0**	**0.5**	**1.3**	**24.5**	**343.3**
Financial debt	23.3	0.0	0.0	13.1	36.4
Lease liabilities	0.0	0.0	0.0	13.1	13.1
Miscellaneous financial debt	23.3	0.0	0.0	0.0	23.3
Trade payables	180.6	0.0	0.0	0.0	180.6
Other liabilities	113.1	0.5	1.3	11.4	126.3

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	**Dec. 31, 2020**		Dec. 31, 2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Trade receivables	107.7	107.7	142.1	142.1
Other receivables and assets	14.6	14.6	62.4	62.4
Cash and cash equivalents	64.7	64.7	55.3	55.3
Financial liabilities				
Financial debt – liabilities to banks	90.5	91.2	28.6	28.8
Trade payables	153.0	153.0	180.6	180.6
Other liabilities	45.2	45.2	114.8	114.8

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 computed 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 classification in 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 disclosed in the notes to the financial statements:

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.

Dec. 31, 2019

€ 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	2.2	2.2	2.2	0.0	0.0
Currency forwards - recognized through other comprehensive income	0.2	0.2	0.0	0.2	0.0
Currency forwards – recognized through profit or loss	0.2	0.2	0.0	0.2	0.0
Trade receivables	10.0	10.0	0.0	0.0	10.0
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	4.3	4.3	0.0	0.0	4.3
Financial debt	28.6	28.8	0.0	0.0	28.8

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.

The other liabilities recognized at fair value, which amounted to €2.5 million (December 31, 2019: €4.3 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. The measurement particularly drew on management assessments regarding the occurrence of certain conditions, 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. The decrease in the contingent consideration from €4.3 million to €2.5 million is attributable to a payment of €1.2 million and to an adjustment of €0.6 million in the fair value. The adjustment of the fair value was recognized in the income statement under other operating income.

Net gains and losses on financial instruments

Net gains or losses recognized in the income statement are broken down by measurement category in IFRS 9 as follows:

	Measured at fair value		Measured at amortized cost	
2020	Financial assets	**Financial liabilities**	Financial assets	**Financial liabilities**
€ million				
Net gains/losses	0.0	0.0	–6.4	–3.4

	Measured at fair value		Measured at amortized cost	
2019	Financial assets	**Financial liabilities**	Financial assets	**Financial liabilities**
€ million				
Net gains/losses	–11.1	0.1	–2.0	–2.1

The net gains or losses for each measurement category primarily comprise gains and losses recognized in profit or loss resulting from the measurement of financial instruments at fair value, currency translation of financial instrument carrying amounts, impairment losses and/or reversal of impairment losses on financial instruments, and interest income and expense.

In the reporting period, no material unrealized gains or losses on financial investments measured at fair value through other comprehensive income were reported in other comprehensive income (2019: gains of €0.2 million). As had been the case in 2019, no material realized gains or losses were reclassified from other comprehensive income to the income statement in 2019.

Total interest income and interest expense

In 2020, interest income of €0.7 million (2020: €1.0 million) and interest expense of €2.9 million (2019: €2.1 million) were attributable to financial assets and financial liabilities that were not measured at fair value through profit or loss. Assets measured at amortized cost accounted for €0.7 million of the interest income (2019: €1.0 million).

Hedging

Cash flow hedging As at December 31, 2020, there were currency futures and interest-rate swaps that were classified as hedging instruments (December 31, 2019: currency futures and interest-rate swaps). Interest-rate swaps were used to hedge the interest-rate risk associated with floating-rate loans. Currency futures are used to hedge the currency risk arising from forecast transactions in foreign currencies.

Unrealized gains of €2.2 million on cash flow hedges were recognized in other comprehensive income in 2020 (2019: €0.6 million), taking into account deferred tax liabilities of €0.7 million (2019: €0.2 million). These changes in fair value represent the effective portion of the hedge. In 2020, prior to the inclusion of deferred taxes, losses of €0.3 million (2019: €3.0 million) recognized in other comprehensive income during the year were reclassified to other operating income or expenses in the consolidated income statement. There was no hedging ineffectiveness requiring reclassification from the reserve for cash flow hedges to the income statement in the year under review. Hedges relating to foreign-currency transactions in the operating business are expected to be unwound within the next twelve months and those relating to future interest-rate risks are expected to be unwound in a period of six months. The associated gains that have been recognized in other comprehensive income will be reclassified to the income statement.

Derivative financial instruments

The following derivative financial instruments were reported as at the balance sheet date:

€ million	**Notional amounts 2020**	Notional amounts 2019	**Fair value 2020**	Fair value 2019
Currency forwards				
not used as hedges	1.5	4.2	0.1	0.0
used as cash flow hedges	31.2	106.4	1.9	–0.1
Interest-rate swaps				
used as cash flow hedges	0.0	5.4	0.0	0.0

Currency forwards used as cash flow hedges

€ million	**2020**	2019
Carrying amount (other liabilities/ other receivables and assets)	1.9	–0.1
Notional amount	31.2	106.4
Date of maturity	Feb 16, 2021–Feb. 18, 2022	Jan. 15, 2020–Jan. 15, 2021
Hedge ratio	1:1	1:1
Change in fair value in the reporting period	1.9	–0.1
Change in value of the hedged item used to determine hedge effectiveness	–1.9	0.1
Average hedged rate for 2020	US$ 1.1605: €1	US$ 1.1411: €1 CNY 6.9934: US$ 1

Interest-rate swaps used as cash flow hedges

€ million	**2020**	2019
Carrying amount (other liabilities)	0.0	0.0
Notional amount	0.0	5.4
Date of maturity	Jul. 5, 2020	Jul. 5, 2020
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments in the reporting year	0.0	0.1
Change in value of the hedged item used to determine hedge effectiveness	0.0	–0.1
Weighted average hedged rate for 2020	1.11%	1.11%

Netting

As at December 31, 2020, there were no material financial assets and liabilities subject to netting agreements in the DEUTZ Group.

27. INTERESTS IN OTHER ENTITIES

In addition to the parent company DEUTZ AG, the consolidated financial statements for 2020 included 30 subsidiaries, one joint venture, and one associate.

Subsidiaries and non-controlling interests

Due to the indirect investment in DEUTZ Romania S.r.l, Galati, Romania, the 25 percent of the voting shares in DEUTZ Romania S.r.l. attributable to Mr. Glavan (CEO of DEUTZ Romania S.r.l.) are shown as non-controlling interests. These amounted to €0.2 million as at December 31, 2020 (December 31, 2019: €0.2 million) and are therefore regarded as not material.

Joint ventures

The joint venture is Hunan DEUTZ Power Co., Ltd., headquartered in Changsha, China, which DEUTZ established with SANY. Hunan DEUTZ Power Co., Ltd. is an unlisted joint arrangement in which the Group shares joint control and has an ownership interest of 51 percent. Hunan DEUTZ Power Co., Ltd., Changsha, China, itself holds 100 percent of the shares in the operational production company Kunshan SANY Power Co., Ltd., Kunshan, China. The primary objective of the strategic partnership is the manufacture of new engines for the Chinese market that comply with the China IV emissions standard for off-highway applications and China 6 for on-highway applications. The shares are classified as a joint venture and accounted for in the consolidated financial statements using the equity method.

A summary of financial information for Hunan DEUTZ Power Co., Ltd., based on its consolidated financial statements prepared in accordance with IFRS, is shown in the following table.

€ million	**Dec. 31, 2020**
Revenue	143.9
Depreciation and amortization	–5.7
Interest income	0.7
Interest expense	0.0
Interest income, net	0.7
Income taxes	0.0
Profit from continuing operations	1.8
Net income	**1.8**
Current assets	147.8
thereof cash and cash equivalents	102.5
Non-current assets	41.4
Current liabilities	66.5
thereof current financial liabilities	0.2
Non-current liabilities	39.8
thereof non-current financial liabilities	0.0
Net assets	**82.8**
Group's share of net assets at Jan. 1	32.8
Adjustment of net assets after PPA	9.9
Share of net income	0.9
Dividends received in 2020	0.0
Effect of currency translation	–1.4
Group's share of net assets at Dec. 31	42.2
Goodwill of DEUTZ AG after PPA	6.0
Impairment	0.0
Carrying amount using the equity method at Dec. 31	**48.2**

As part of the purchase price allocation (PPA), unrecognized intangible assets, hidden reserves, and corresponding deferred tax liabilities were identified, which lowered the provisional figure for goodwill from €15.9 million to €6.0 million. The intangible assets and hidden reserves that were identified mainly related to long-term customer relationships and technology. The assets are amortized over their useful economic life of three to five years.

The goodwill represents the joint venture's predicted earnings performance. Efficiencies in respect of the Group's overarching growth strategy for China are also expected. This goodwill is currently not tax-deductible.

Non-material associates

A summary of financial information is shown below for the Group's interest in D. D. Power Holdings (Pty) Ltd., Elandsfontein, South Africa, which is classified as a non-material associate. The company has a different financial year (ending on November 30). Annual financial statements for the year ended December 31 have not been prepared for reasons of materiality.

€ million	**2020**	2019
Carrying amount of interests	**2.0**	**2.4**
Group's share of:		
Profit from continuing operations	0.5	0.7
Other comprehensive income	0.0	0.0
Net income	**0.5**	**0.7**

28. CONTINGENT LIABILITIES

Contingent liabilities

The DEUTZ Group's contingent liabilities as at the balance sheet date were as follows:

€ million	**Dec. 31, 2020**	Dec. 31, 2019
Guarantee liabilities	0.0	0.0
Warranty liabilities	1.9	2.0
Total	**1.9**	**2.0**

Other financial obligations

The following table shows the notional amounts and due dates of other financial obligations:

€ million	**Dec. 31, 2020**	Dec. 31, 2019
due in less than 1 year	10.2	8.1
due in 1 to 5 years	20.9	13.3
due in more than 5 years	0.5	0.0
Total	**31.6**	**21.4**

The above obligations largely relate to rental agreements and leases for low-value assets and to financial obligations in connection with IT services.

Commitments to purchase property, plant and equipment and intangible assets amounted to €29.5 million as at December 31, 2020 (December 31, 2019: €35.9 million) and commitments to purchase inventories amounted to €79.8 million (December 31, 2019: €94.9 million).

Legal disputes

DEUTZ AG and other companies in the DEUTZ Group are involved in a number of legal disputes, claims for damages, and arbitration proceedings that could have an impact on the Group's financial position.

Financial provision has been made to cover litigation risks facing the respective Group companies if the event in question occurred before the balance sheet date, an obligation is probable, and the amount of the obligation can be determined with a sufficient degree of reliability.

We do not expect the above risks to have a significantly adverse long-term impact on the DEUTZ Group's financial position or financial performance beyond the financial provision already made.

29. 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.

Related parties also include the Supervisory Board and the Board of Management.

The following table shows the volume of material goods and services either provided for or received from entities in which the DEUTZ Group holds significant investments:

€ million	Goods and services provided		Other expenses for services received		Receivables Dec. 31		Payables Dec. 31	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Associates	7.7	9.0	0.0	0.0	1.0	0.9	0.0	0.0
Joint ventures	0.6	0.0	0.0	0.0	0.6	0.0	0.0	0.0
Other investments	0.0	1.1	4.9	4.9	0.0	0.3	3.0	3.1
Total	**8.3**	**10.1**	**4.9**	**4.9**	**1.6**	**1.2**	**3.0**	**3.1**

In January 2020, DEUTZ DO BRASIL LTDA., São Paulo, Brazil was included as a subsidiary in the consolidated financial statements. Because it had been treated as an associate in the prior-year period, this led to a decrease in goods supplied and services rendered to other investments and in receivables due from other investments.

As at December 31, 2020, receivables of €9.2 million due from other investments had been written off in full. On the same date in the prior year, impairment losses of €9.9 million had been recognized on the €10.2 million in receivables that were due from other investments. This resulted in no income or expense in 2020 (December 31, 2019: income of €0.3 million). The change compared with December 31, 2019 was due to the full inclusion of the investment in DEUTZ DO BRASIL LTDA., São Paulo, Brazil, in the consolidated financial statements of DEUTZ AG with effect from January 1, 2020.

Of these receivables, €5.2 million related to loans granted by DEUTZ (December 31, 2019: €5.2 million) on which impairment losses of €5.2 million had been recognized (December 31, 2019: €5.2 million). 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.

The following payments were made to the Supervisory Board and the Board of Management as related parties of the DEUTZ Group:

€ million	Supervisory Board		Board of Management	
	2020	2019	**2020**	2019
Short-term remuneration[1]	1.4	1.5	2.4	3.1
Other long-term benefits	0.0	0.0	–0.3	0.2
Share-based remuneration[2]	0.0	0.0	0.1	0.2

[1] The current remuneration for members of the Supervisory Board includes both remuneration for their work as Supervisory Board members and the regular salaries of the salaried employee representatives.
[2] The disclosure of share-based remuneration corresponds with the expense (+) or income (–) recognized in the operating profit in 2020 from the changes in provisions made for distributed virtual share options.

30. EVENTS AFTER THE REPORTING PERIOD

No events occurred after December 31, 2020 that had a material impact on the financial position or financial performance of DEUTZ AG.

31. SHARE-BASED REMUNERATION PROGRAMS

Between 2007 and 2020, DEUTZ AG launched long-term incentive plans as long-term components of remuneration. Under these long-term incentive plans, virtual stock options are issued to reward management for its sustained contribution to the Company's success.

General description of the incentive plans of DEUTZ AG

Under DEUTZ AG's incentive plans, virtual options are issued on shares in DEUTZ AG. The Company decides at its discretion who is eligible to participate in the plans. However, only members of the DEUTZ Group's senior management and members of the Supervisory Board of DEUTZ AG may be considered for inclusion. It is at the discretion of the Company to decide how many options are granted.

By the balance sheet date, the following long-term incentive plans (LTI) that were still in existence, with the number of options shown, had been granted free of charge:

Incentive plan	Date of grant	Number of options
LTI no. VIII	September 1, 2014	320,000
LTI no. IX	June 1, 2015	320,000
LTI no. X	September 1, 2016	340,000
LTI BoM 2017	January 1, 2017	102,926
LTI no. XI	September 1, 2017	320,000
LTI BoM 2018	January 1 and March 1, 2018	54,530 and 19,789
LTI no. XII	September 1, 2018	322,501
LTI BoM 2019	January 1 and March 1, 2019	57,698 and 21,009
LTI no. XIII	October 1, 2019	280,000
LTI BoM 2020	January 1, 2020	94,049
LTI No. XIV	October 1, 2020	290,000

A total of 350,001 of these options had been granted to current and former members of the DEUTZ AG Board of Management.

Information on the exercise of options

One of the fundamental requirements for exercising options is that the option holders themselves invest in the Company at a ratio of one share per ten options, or one share per 20 options in the case of the LTI BoM 2016 to 2020. The absolute earliest that options can be exercised is four years after the date of grant (vesting period) and then only within four years from the end of the vesting period and only within ten days from the date of publication of quarterly financial statements. However, options under the LTI BoM 2016 to 2020 are exercised automatically four years after the date of grant. The Company may delay the start of the exercise window for the options or accelerate the exercise and vesting periods, but cannot change the exercise or vesting periods of the options relating to the LTI BoM 2016 to 2020.

Furthermore, options may only be exercised:

- if the market price of DEUTZ AG shares has risen by at least 30 percent relative to the reference price (dividend distributions by DEUTZ AG must be taken into consideration, i.e. for the purposes of calculating the performance target, the total gross dividend distribution up to the exercise date must be added to the DEUTZ AG share price), or
- if, in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the DAXsector Industrial Performance Index – or any future index that replaces the DAXsector Industrial Performance Index – by at least 30 percent, or
- in the case of the LTI BoM 2017 to 2020, if, in the period starting from the grant date of the option and ending on the date of exercise, DEUTZ AG shares outperform the MDAX – or any future index that replaces the MDAX – by at least 10 percentage points.

A request to exercise options must be submitted to the Company in writing.

The following specific terms and conditions apply to the incentive plans still in existence:

Incentive plan	Earliest or automatic exercise date	Reference price
LTI no. VIII	September 1, 2018	€ 5.37
LTI no. IX	June 1, 2019	€ 4.40
LTI no. X	September 1, 2020	€ 3.94
LTI BoM 2017	January 1, 2021	€ 4.91
LTI no. XI	September 1, 2021	€ 6.66
LTI BoM 2018	January 1, 2022 and March 1, 2022	€7.03 and €7.58
LTI no. XII	September 1, 2022	€ 7.15
LTI BoM 2019	January 1, 2023 and March 1, 2023	€6.33 and €5.95
LTI no. XIII	from 1 October 2023	€ 5.80
LTI BoM 2020	January 1, 2024	€ 5.48
LTI No. XIV	from 1 October 2024	€ 4.56

When an option is exercised, the beneficiary receives a cash payment in the amount of the difference between the DEUTZ AG share price on the exercise date and the reference price at the time the option was granted. Under the LTI BoM 2017 to 2020, however, beneficiaries receive a cash payment equivalent to the average closing price of DEUTZ AG shares on the 60 trading days prior to the end of the vesting period up to a maximum of 1.5 times the reference price. No beneficiary receives shares in the Company.

The following table shows the changes to the number of outstanding options in 2020:

Incentive plan	Outstanding options at Jan. 1	Options granted	Options exercised	Options expired	Outstanding options at Dec. 31
LTI no. VIII	60,000	0	0	–20,000	40,000
LTI no. IX	87,000	0	–37,000	0	50,000
LTI BoM 2016	147,577	0	–147,577	0	0
LTI no. X	210,000	0	–63,000	–10,000	137,000
LTI BoM 2017	102,926	0	0	0	102,926
LTI no. XI	220,000	0	0	–20,000	200,000
LTI BoM 2018	74,319	0	0	0	74,319
LTI no. XII	272,501	0	0	–40,000	232,501
LTI BoM 2019	78,707	0	0	0	78,707
LTI no. XIII	280,000	0	0	–20,000	260,000
LTI BoM 2020	0	94,049	0	0	94,049
LTI No. XIV	0	290,000	0	0	290,000
Total	**1,533,030**	**384,049**	**–247,577**	**–110,000**	**1,559,502**

Notes on the fair value of options

Because the virtual options are cash-based instruments rather than equity-based instruments, the Company is obliged to recognize a provision, the amount of which is derived from the fair value of the virtual options at the grant date and apportioned pro rata over the vesting period.

An option pricing model using the Black-Scholes formula was used to ascertain the fair value. The model factors in the aforementioned exercise prices, the term, and the value of the underlying asset (DEUTZ AG shares).

LTI no. VIII

The risk-free interest rate (0.63 percent) used in the calculation is based on German government bonds with terms of up to ten years issued in the second half of 2014. The assumed volatility (57.72 percent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €4.52 on September 1, 2014. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI no. IX

The risk-free interest rate (0.63 percent) used in the calculation is based on German government bonds with terms of up to ten years issued in the second half of 2015. The assumed volatility (58.58 percent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €5.24 on June 1, 2015. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI no. X

The risk-free interest rate (0.0 percent) used in the calculation is based on German government bonds with terms of up to ten years issued in the second half of 2016. The assumed volatility (44.30 percent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €4.00 on September 1, 2016. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI BoM 2017

The risk-free interest rate (0.1 percent) used in the calculation is based on German Federal notes and German Federal Treasury notes issued at the start of 2017. The assumed volatility (41.39 percent) is based on the average value for call options on DEUTZ AG shares available on the market as at January 1, 2017. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €5.473 on January 1, 2017. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

LTI no. XI

The risk-free interest rate (0.0 percent) used in the calculation is based on German government bonds with terms of up to ten years issued in the second half of 2017. The assumed volatility (39.50 percent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €6.51 on September 1, 2017. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI BoM 2018

The risk-free interest rate (0.1 percent) used in the calculation is based on German Federal notes and German Federal Treasury notes issued in mid-2018. The assumed volatility (43.92 percent) is based on the average value for call options on DEUTZ AG shares available on the market as at June 30, 2018. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €7.57 on January 1, 2018 and €7.35 on March 1, 2018. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

LTI no. XII

The risk-free interest rate (0.0 percent) used in the calculation is based on German government bonds with terms of up to ten years issued in the second half of 2018. The assumed volatility (47.90 percent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €7.59 on September 1, 2018. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI BoM 2019

The risk-free interest rate (0.1 percent) used in the calculation is based on German Federal notes and German Federal Treasury notes issued in mid-2019. The assumed volatility (33.08 percent) is based on the average value for call options on DEUTZ AG shares available on the market as at June 30, 2019. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €5.25 on January 1, 2019 and €6.40 on March 1, 2019. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

LTI no. XIII

The risk-free interest rate (0.0 percent) used in the calculation is based on German government bonds with terms of up to ten years issued in the second half of 2019. The assumed volatility (49.70 percent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €5.05 on October 1, 2019. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

LTI BoM 2020

The risk-free interest rate (0.1 percent) used in the calculation is based on German Federal notes and German Federal Treasury notes issued in mid-2020. The assumed volatility (54.26 percent) is based on the average value for call options on DEUTZ AG shares available on the market as at June 30, 2020. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €5.77 on January 1, 2020. As the options are automatically exercised at the end of the vesting period, the provision for the options that are not yet vested was calculated on the basis of the vesting period.

LTI no. XIV:

The risk-free interest rate (0.0 percent) used in the calculation is based on bonds with terms of up to ten years issued by the Federal Republic of Germany in the second half of 2020. The assumed volatility (51.42 percent) is based on the average value for call options on DEUTZ AG shares available on the market at the end of the year. It is assumed that no option holders leave the Company.

The calculation on the grant date was based on the DEUTZ AG share price of €5.015 on October 1, 2020. It was also assumed that employees would tend to exercise options at the earliest possible date. Consequently, the provisions were calculated on the basis of the vesting period.

In accordance with the requirement for the fair value of options to be recalculated on each balance sheet date, a calculation was carried out on the basis of the DEUTZ AG share price of €5.10 on December 31, 2020 (December 31, 2019: €5.57), which resulted in an overall expense of €324 thousand in 2020 (2019: €1,407 thousand). A total provision of €1,852 thousand was recognized at the end of 2020 (December 31, 2019: €2,415 thousand). The amount is broken down as follows:

Incentive plan	Dec. 31, 2020 € thousand	Dec. 31, 2019 € thousand
LTI no. VIII	56	127
LTI no. IX	103	236
LTI BoM 2016	0	757
LTI no. X	292	312
LTI BoM 2017	525	430
LTI no. XI	36	98
LTI BoM 2018	280	202
LTI no. XII	91	113
LTI BoM 2019	196	105
LTI no. XIII	115	35
LTI BoM 2020	120	0
LTI No. XIV	38	0
Total	**1,852**	**2,415**

Of the total expenses in 2020 and the total provisions as at December 31, 2020, the sum attributable to members of the Board of Management and Supervisory Board of DEUTZ AG was €119 thousand (2019: €216 thousand) and €961 thousand (December 31, 2019: €842 thousand) respectively.

The options granted had the following intrinsic values, provided the vesting conditions were met:

Incentive plan	Intrinsic value per option, provided the vesting conditions are met (€)	
	Dec. 31, 2020	Dec. 31, 2019
LTI no. VIII	0.00	0.00
LTI no. IX	0.00	0.00
LTI no. X	0.00	1.63
LTI BoM 2017	0.00	0.00
LTI no. XI	0.00	0.00
LTI BoM 2018	0.00 and 0.00	0.00 and 0.00
LTI no. XII	0.00	0.00
LTI BoM 2019	0.00 and 0.00	0.00 and 0.00
LTI no. XIII	0.00	0.00
LTI BoM 2020	0.00	0.00
LTI No. XIV	0.00	0.00

32. STAFF COSTS

€ million	2020	2019
Wages	123.4	146.0
Salaries	159.5	169.9
Social security contributions	56.0	60.3
Net interest cost for provisions for pensions and other post-retirement benefits	1.2	2.2
Cost of post-employment benefits and other long-term benefits	2.3	2.1
Cost of severance payments/ personnel restructuring	0.4	2.3
Total	**342.8**	**382.8**

The following table shows the breakdown of staff costs by functional area:

€ million	2020	2019
Cost of sales	194.9	224.0
Research and development costs	47.7	49.9
Selling expenses	65.7	70.5
Administrative expenses	31.9	34.6
Other operating expenses	2.6	3.8
Total	**342.8**	**382.8**

The average number of employees during the year is stated in the disclosures under German accounting standards in Note 33.

DISCLOSURES UNDER GERMAN ACCOUNTING STANDARDS

33. AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR (PURSUANT TO SECTION 314 (1) NO. 4 HGB)

	2020	2019
Non-salaried employees	2,567	2,831
Salaried employees	1,997	1,904
	4,564	**4,735**
Trainees	99	88
Total	**4,663**	**4,823**

From 2019 onward, the number of employees is expressed in full-time equivalents (FTEs). Part-time employees are included pro rata according to their contractual working hours.

34. CORPORATE GOVERNANCE

In December 2020, the Board of Management and the Supervisory Board of DEUTZ AG issued a declaration of conformity with the recommendations of the German Corporate Governance Code government commission pursuant to section 161 AktG and made this declaration permanently and publicly available on the Company's website (**https://www.deutz.com/en/investor-relations/corporate-governance/declaration-of-conformity/**).

35. AUDITOR'S FEES

The total fees reported for auditing the consolidated financial statements for 2020 and 2019 are broken down as follows:

€ thousand	**2020**	2019
Auditing	717	592
Other attestation services	91	70
Total	**808**	**662**

The fees for auditing services essentially consisted of the fees for the audit of the consolidated financial statements, the review of the interim financial statements for the six months to June 30 and the audit of DEUTZ AG's annual financial statements. The fees for auditing services also included fees for the audit of the annual financial statements of Torqeedo GmbH. The fees for other attestation services primarily related to the audit of the declaration of completeness in respect of sales packaging pursuant to the German Packaging Ordinance (VerpackV), the audit of the non-financial report, and the audit of compliance with key financials.

The auditor responsible for the audit, Bernd Boritzki, has overseen the audit of the single-entity and consolidated annual financial statements of DEUTZ AG since 2014.

36. TOTAL REMUNERATION FOR THE BOARD OF MANAGEMENT, FORMER BOARD OF MANAGEMENT MEMBERS, AND THE SUPERVISORY BOARD

Board of Management

The total remuneration for the Board of Management of DEUTZ AG recognized in expenses in 2020 was €2,586 thousand (2019: €3,772 thousand). This consisted of short-term employee benefits of €2,362 thousand (2019: €3,071 thousand), other long-term benefits of minus €291 thousand (2019: €211 thousand), and share-based long-term benefits as part of the long-term incentive plans amounting to €515 thousand (2019: €490 thousand). The change in long-term benefits related to adjustments of the provisions recognized in 2019 for the deferred portions of the bonus.

Further details about the remuneration system for members of the Board of Management and details of individual remuneration can be found in the 'Remuneration report' section of the 2020 combined management report.

Remuneration for former members of the Board of Management or their surviving dependants amounted to €1,181 thousand (2019: €1,262 thousand) for DEUTZ AG and the Group. Provisions of €12,397 thousand (December 31, 2019: €12,944 thousand) have been recognized to cover pension obligations to former members of the Board of Management.

Supervisory Board

The total remuneration for the Supervisory Board of DEUTZ AG in 2020 was €840 thousand (2019: €871 thousand). In addition, the employee representatives on the Supervisory Board who are also employees of the DEUTZ Group received normal salaries in line with their employment contracts. The level of their salaries represented appropriate remuneration for corresponding functions and tasks in the Group.

Further details about the Supervisory Board remuneration system and details of individual remuneration can be found in the 'Remuneration report' section of the 2020 combined management report.

Advances and loans to members of the Board of Management and the Supervisory Board

As at December 31, 2019, there were no outstanding advances or loans to any members of the Board of Management or the Supervisory Board, nor had any guarantees or other warranties been issued in favor of any such persons.

37. DISCLOSURES UNDER THE GERMAN SECURITIES TRADING ACT (WPHG)

The German Securities Trading Act (WpHG) obliges investors whose share of voting rights in listed companies reaches certain thresholds to notify the company accordingly. DEUTZ AG had received the following voting right notifications as at December 31, 2020:

On February 5, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had fallen below the 3 percent threshold on February 3, 2020 and amounted to 2.997580302121 percent (3,622,929 voting rights) on that date. Pursuant to section 34 WpHG, 2.997580302121 percent (3,622,929 voting rights) are attributable to it.

On February 14, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had exceeded the 3 percent threshold on February 12, 2020 and amounted to 3.04 percent (3,674,150 voting rights) on that date. Pursuant to section 34 WpHG, 3.04 percent (3,674,150 voting rights) are attributable to it.

On February 19, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had fallen below the 3 percent threshold on February 14, 2020 and amounted to 2.97 percent (3,589,660 voting rights) on that date. Pursuant to section 34 WpHG, 2.97 percent (3,589,660 voting rights) are attributable to it.

On February 20, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had exceeded the 3 percent threshold on February 18, 2020 and amounted to 3.05 percent (3,691,144 voting rights) on that date. Pursuant to section 34 WpHG, 3.05 percent (3,691,144 voting rights) are attributable to it.

On February 21, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had fallen below the 3 percent threshold on February 19, 2020 and amounted to 2.97 percent (3,589,978 voting rights) on that date. Pursuant to section 34 WpHG, 2.97 percent (3,589,978 voting rights) are attributable to it.

On February 26, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had exceeded the 3 percent threshold on February 24, 2020 and amounted to 3.002966620143 percent (3,629,439 voting rights) on that date. Pursuant to section 34 WpHG, 3.002966620143 percent (3,629,439 voting rights) are attributable to it.

On February 27, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had fallen below the 3 percent threshold on February 25, 2020 and amounted to 2.95 percent (3,559,659 voting rights) on that date. Pursuant to section 34 WpHG, 2.95 percent (3,559,659 voting rights) are attributable to it.

On March 5, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had exceeded the 3 percent threshold on March 2, 2020 and amounted to 3.71 percent (4,486,666 voting rights) on that date. Pursuant to section 34 WpHG, 3.71 percent (4,486,666 voting rights) are attributable to it.

On May 5, 2020, pursuant to section 33 (1) WpHG, Dimensional Holdings Inc., Austin, Texas, United States of America, notified us that its voting share in our Company had fallen below the 5 percent threshold on April 29, 2020 and amounted to 4.97 percent (6,008,631 voting rights) on that date. Pursuant to section 34 WpHG, 4.97 percent (6,008,631 voting rights) are attributable to it. 4.75 percent of the voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3 percent or more: Dimensional Fund Advisors LP.

On July 9, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had exceeded the 5 percent threshold on July 3, 2020 and amounted to 5.27 percent (6,373,217 voting rights) on that date. Pursuant to section 34 WpHG, 5.27 percent (6,373,217 voting rights) are attributable to it.

On July 14, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had fallen below the 5 percent threshold on July 8, 2020 and amounted to 4.88 percent (5,898,872 voting rights) on that date. Pursuant to section 34 WpHG, 4.88 percent (5,898,872 voting rights) are attributable to it.

On July 14, 2020, pursuant to section 33 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway notified us that its voting share in our Company had fallen below the 3 percent threshold on July 8, 2020 and amounted to 2.92 percent (3,530,750 voting rights) on that date. Pursuant to section 34 WpHG, 2.92 percent (3,530,750 voting rights) are attributable to it.

On July 14, 2020, pursuant to section 33 (1) WpHG, the Ministry of Finance on behalf of the State of Norway, Oslo, Norway notified us that its voting share in our Company had exceeded the 3 percent threshold on July 10, 2020 and amounted to 3.15 percent (3,806,263 voting rights) on that date. Pursuant to section 34 WpHG, 3.15 percent (3,806,263 voting rights) are attributable to it. The voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3 percent or more: Norges Bank (the Central Bank of Norway).

On July 15, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had exceeded the 5 percent threshold on July 9, 2020 and amounted to 5.3 percent (6,408,333 voting rights) on that date. Pursuant to section 34 WpHG, 5.3 percent (6,408,333 voting rights) are attributable to it.

On July 27, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had fallen below the 5 percent threshold on July 22, 2020 and amounted to 4.89 percent (5,912,533 voting rights) on that date. Pursuant to section 34 WpHG, 4.89 percent (5,912,533 voting rights) are attributable to it.

On August 5, 2020, pursuant to section 33 (1) WpHG, the Janus Henderson Group plc, St Helier, Jersey, notified us that its voting share in our Company had exceeded the 3 percent threshold on July 30, 2020 and amounted to 3.08 percent (3,721,613 voting rights) on that date. Pursuant to section 34 WpHG, 3.08 percent (3,721,613 voting rights) are attributable to it. The voting rights attributable to it are held by the following company under its control, whose voting share in DEUTZ AG is 3 percent or more: Henderson Global Investors Limited.

On November 26, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had exceeded the 5 percent threshold on November 24, 2020 and amounted to 5.13 percent (6,204,419 voting rights) on that date. Pursuant to section 34 WpHG, 5.13 percent (6,204,149 voting rights) are attributable to it.

On November 27, 2020, pursuant to section 33 (1) WpHG, Universal-Investment-Gesellschaft mbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had exceeded the 3 percent threshold on November 24, 2020 and amounted to 3.09 percent (3,731,839 voting rights) on that date. Pursuant to section 34 WpHG, 3.09 percent (3,731,839 voting rights) are attributable to it.

On December 3, 2020, pursuant to section 33 (1) WpHG, DWS Investment GmbH, Frankfurt am Main, Germany, notified us that its voting share in our Company had fallen below the 5 percent threshold on November 30, 2020 and amounted to 4.76 percent (5,752,618 voting rights) on that date. Pursuant to section 34 WpHG, 4.76 percent (5,752,618 voting rights) are attributable to it.

38. EXEMPTION OPTIONS PURSUANT TO 264 (3) AND 291 HGB

The subsidiary Torqeedo GmbH is exercising the exemption rules pursuant to sections 264 (3) and 291 HGB and will therefore neither prepare its consolidated financial statements for 2020, management report and notes to the financial statements nor publish its annual financial statements.

39. SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Information on the members of the Supervisory Board and the Board of Management, including non-executive directorships held at other companies, is given in a separate list on pages 166 to 167.

Cologne, February 26, 2021

DEUTZ Aktiengesellschaft

The Board of Management

Dr. Ing. Frank Hiller
Chairman

Dr. Sebastian C. Schulte

Dr. Andreas Strecker

Michael Wellenzohn

SHAREHOLDINGS OF DEUTZ AG

As at December 31, 2020

Ref. no.	Name and registered office of the company	Held via	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
1	DEUTZ AG, Cologne			572,818	-117,563
Consolidated companies in Germany					
2	Ad. Strüver KG (GmbH & Co.), Hamburg[1]	5	94.0	8,244	–46
3	DEUTZ Amerika Holding GmbH, Cologne[1, 2]	1	100.0	92,275	0
4	DEUTZ Asien Verwaltungs GmbH, Cologne[1, 2]	1	100.0	16,125	0
5	DEUTZ Beteiligung GmbH, Cologne[1]	1	100.0	19	0
6	Deutz China Verwaltungs GmbH, Cologne[8]	1	100.0	48,350	603
7	Deutz-Mülheim Grundstücksgesellschaft mbH, Cologne[1]	4	100.0	44	–28
8	Futavis GmbH, Alsdorf[1, 2]	1	100.0	1,663	–318
9	Torqeedo GmbH, Gilching[1, 2]	1	100.0	23,059	–1,520
10	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne[1]	1	100.0	–1,820	124
Consolidated companies outside Germany					
11	DEUTZ Asia-Pacific (Pte.) Ltd., Singapore (Singapore)[1]	1	100.0	10,157	1,957
12	Deutz Australia (Pty) Ltd., Braeside (Australia)[1]	1	100.0	6,748	683
13	Deutz Austria GmbH, Vienna (Austria)[1, 7]	1	100.0	788	–6
14	DEUTZ (Beijing) Engine Co., Ltd., Beijing (China)[1]	1	100.0	4,616	240
15	Deutz Belgium N.V, Antwerp (Belgium)[1]	16	100.0	3,914	288
16	Deutz Benelux B.V., Rotterdam (Netherlands)[1]	1	100.0	3,601	4
17	Deutz Corporation, Atlanta (USA)[1]	3	100.0	24,567	–3,225
18	Deutz Do Brasil Ltda,l São Paulo (Brazil)[9]	1	100.0	846	355
19	DEUTZ FRANCE S.A.S., Gennevilliers (France)[1]	1	100.0	11,347	505
20	DEUTZ Global Service Center, S.L., Zafra (Spain)	1	100.0	3	0
21	DEUTZ Italy S.r.l., Milan (Italy)[1]	1	100.0	11,125	2,302
22	Deutz Netherlands B.V., Dordrecht (Netherlands)[1]	16	100.0	4,021	–37
23	DEUTZ Romania S.r.l., Galati, (Romania)[1]	21	75.0	893	269
24	DEUTZ (SHANGHAI) INTERNATIONAL TRADE Co., Ltd., Shanghai (China)[1]	1	100.0	14,902	–1,710
25	DEUTZ Spain S.A., Zafra (Spain) [1]	1	100.0	38,102	1,786
26	Motor Center Austria GmbH, Wels (Austria)[1, 7]	1	100.0	207	84
27	Nlle Ste MAGIDEUTZ S.A., Casablanca (Morocco)[1]	19	100.0	4,000	–10
28	OOO DEUTZ Vostok, Moscow (Russia)[1]	1	100.0	1,449	775
29	PRO MOTOR Servis CZ s.r.o., Modřice (Czech Republic)[1, 7]	1	100.0	737	67
30	Service Center Milan S.r.l., Milan (Italy)[1]	21	100.0	539	26
31	Torqeedo Inc. Illinois (USA)[1]	9	100.0	877	–315
32	Torqeedo Asia-Pacific Ltd., Bangkok (Thailand)[1]	9	100.0	–1,017	–322
33	D. D. Power Holdings (Pty) Ltd., Elandsfontein (South Africa)[3, 4]	1	30.0	8,480	1,519
34	Hunan DEUTZ Power Co., Ltd., Changsha (China) [3]	6	51.0	82,812	1,836

SHAREHOLDINGS OF DEUTZ AG

As at December 31, 2020

Ref. no.	Name and registered office of the company	Held via	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
Unconsolidated companies in Germany					
35	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne[2]	1	100.0	26	0
36	Feld & Hahn GmbH i. L., Cologne[2]	1	100.0	455	0
Unconsolidated companies outside Germany					
37	AROTRIOS S.A., Nea Filadelfia (Greece)	1	100.0		–
38	DEUTZ ENGINEERING druzba za projektiraje, proizvodnjo in trgovino d.o.o., Maribor (Slovenia)	1	100.0	340	52
39	DEUTZ Engines (India) Private Limited, Pune (India)[5]	1	100.0	510	104
40	DEUTZ UK LTD, Cannock (UK)[6]	1	100.0	164	–8

[1] Equity and net income in accordance with the annual financial statements prepared for consolidation purposes.
[2] Profit-and-loss transfer agreement with DEUTZ AG.
[3] Consolidated using the equity method.
[4] Figures as at November 30, 2020.
[5] Figures as at March 31, 2020 measured using exchange rate as at December 31, 2020.
[6] Figures as at December 31, 2019.
[7] Proportion of net income for the year since the acquisition on October 1, 2020.
[8] Forms a tax group with DEUTZ AG for VAT purposes.
[9] Fully consolidated from January 1, 2020.

SUPERVISORY BOARD

Dr. Ing. Bernd Bohr
Chairman
Freelance management consultant
a) Ottobock SE & Co. KGaA, Duderstadt, Germany
b) Ottobock Management SE, Duderstadt, Germany
(until December 31, 2020)

Corinna Töpfer-Hartung[1]
Deputy Chairwoman
Chairwoman of the Works Council of the Cologne joint operation of DEUTZ AG, Cologne, Germany
Chairwoman of the General Works Council of DEUTZ AG, Cologne, Germany

Sophie Albrecht
Businesswoman
b) Liebherr-International AG, Bulle, Switzerland
Mariso Bulle S.A., Bulle, Switzerland
Liebherr-Intertrading S.A., Bulle, Switzerland
Eglesia AG, Bulle, Switzerland

Sabine Beutert[1]
Trade Union Secretary, IG Metall Cologne-Leverkusen Administrative Office, Cologne, Germany

Yavuz Büyükdag[1]
Member of DEUTZ AG Works Council, Cologne, Germany

Dr. Fabian Dietrich[1]
Senior manager representative, DEUTZ AG, Cologne, Germany
Head of Legal at DEUTZ AG, Cologne, Germany

Dr. Ing. Ulrich Dohle
(until October 7, 2020)
Freelance management consultant
b) Benteler International AG, Salzburg (Chairman) – stepped down from post in April 2020
Administrative Board
of Index-Werke, Esslingen, Germany (Chairman)

Hans-Peter Finken[1]
Member of DEUTZ AG Works Council, Cologne, Germany

Patricia Geibel-Conrad
Director of her own audit/tax advice business
Management consultant
a) HOCHTIEF Aktiengesellschaft, Essen, Germany
CEWE Stiftung & Co. KGaA, Oldenburg, Germany

Alois Ludwig
Freelance management consultant

Dr. Ing. Rudolf Maier
(since October 7, 2020)
Freelance management consultant
b) Bosch Engineering GmbH, Abstatt, Germany
ITK Engineering GmbH, Rülzheim, Germany
Weifu High-Techonology Group Co. Ltd. Wuxi, Jiangsu Province, China

Dr. Dietmar Voggenreiter
Management consultant, Horváth & Partners Competence Center Automotive, Munich, Germany

Ali Yener[1]
Chief Representative and Managing Director of IG Metall Koblenz, Germany
a) ZF Active Safety GmbH, Koblenz, Germany

[1] Employee representative on the Supervisory Board.
[a] Membership of statutory German supervisory boards within the meaning of section 125 AktG.
[b] Membership of comparable German or international supervisory bodies within the meaning of section 125 AktG.

SUPERVISORY BOARD COMMITTEES

Human Resources Committee
Dr. Ing. Bernd Bohr, Chairman
Corinna Töpfer-Hartung, Deputy Chairwoman
Alois Ludwig

Audit Committee
Patricia Geibel-Conrad, Chairwoman
Sabine Beutert, Deputy Chairwoman
Dr. Ing. Bernd Bohr
Corinna Töpfer-Hartung

Arbitration Committee
(Section 27 (3) German Codetermination Act (MitbestG))
Dr. Ing. Bernd Bohr, Chairman
Sophie Albrecht
Corinna Töpfer-Hartung
Ali Yener

Nominations Committee
Dr. Ing. Bernd Bohr, Chairman
Sophie Albrecht
Alois Ludwig

BOARD OF MANAGEMENT

Dr. Ing. Frank Hiller (54)
Chairman
Technical and head-office functions, sustainability
a) STRATEC SE, Birkenfeld, Germany, Chairman
(until November 26, 2020) STRATEC SE, Birkenfeld, Deputy Chairman (since November 26, 2020)
b) DEUTZ Corporation, Atlanta, USA, Chairman

Dr. Sebastian C. Schulte (42)
(Member of the Board of Management since January 1, 2021)
Finance, human resources, purchasing, and information services (since March 1, 2021)

Dr. Andreas Strecker (59)
(until February 28, 2021)
Finance, human resources, purchasing, and information services

Michael Wellenzohn (54)
Sales, marketing, and service
b) DEUTZ Asia-Pacific (Pte) Ltd., Singapore, Singapore
DEUTZ Corporation, Atlanta, USA

[a] Membership of statutory German supervisory boards within the meaning of section 125 AktG
[b] Membership of comparable German or international supervisory bodies within the meaning of section 125 AktG.

ANNUAL FINANCIAL STATEMENTS IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

BALANCE SHEET OF DEUTZ AG

€ million

Assets	**Dec. 31. 2020**	Dec. 31. 2019
Intangible assets	76.4	80.6
Property, plant and equipment	255.5	259.8
Investments	314.4	329.5
Non-current assets	**646.3**	**669.9**
Inventories	161.2	180.0
Receivables and other assets	161.3	222.6
Cash and cash equivalents	28.7	17.2
Current assets	**351.2**	**419.8**
Prepaid expenses	2.5	1.8
Deferred tax assets	71.9	70.0
Total assets	**1,071.9**	**1,161.5**

Equity and liabilities	**Dec. 31, 2020**	Dec. 31, 2019
Issued capital	309.0	309.0
Additional paid-in capital	26.8	26.8
Retained earnings		
Legal reserve	4.5	4.5
Other retained earnings	265.6	265.6
Accumulated income/loss	–33.1	84.5
Equity	**572.8**	**690.4**
Provisions	275.6	257.1
Other liabilities	222.3	213.1
Deferred income	1.2	0.9
Total equity and liabilities	**1,071.9**	**1,161.5**

INCOME STATEMENT OF DEUTZ AG

€ million

	2020	2019
Revenue	1,085.2	1,632.3
Cost of sales	–997.8	–1,394.1
Gross profit	**87.4**	**238.2**
Research and development costs	–72.3	–72.7
Selling expenses	–54.3	–55.4
General and administrative expenses	–24.7	–27.9
Other operating income	31.6	35.6
Other operating expenses	–67.3	–31.4
thereof expenses pursuant to art. 67 (1) and (2) of the Introductory Act to the HGB (EGHGB)	–2.3	–2.3
Net investment income	4.6	4.4
Interest expenses, net	–3.6	–2.5
Write-downs of investments	–19.6	0.0
Income taxes	1.1	–21.7
Profit after income taxes	**–117.1**	**66.6**
Other taxes	–0.5	–0.8
Net income	**–117.6**	**65.8**
Profit carried forward	84.5	69.6
Dividend payments to shareholders	0.0	–18.1
Additions to other retained earnings	0.0	–32.8
Accumulated income/loss	**–33.1**	**84.5**

RESPONSIBILITY STATEMENT

“To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position, and results of operation of the Group, and the group management report presents a true and fair view 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.”

Cologne, February 26, 2021

DEUTZ Aktiengesellschaft

The Board of Management

Dr. Ing. Frank Hiller
Chairman

Dr. Sebastian C. Schulte

Dr. Andreas Strecker

Michael Wellenzohn

The following copy of the auditor's report also includes a "Report on the audit of the electronic renderings of the financial statements and the management report prepared for disclosure purposes in accordance with § 317 Abs. 3b HGB" ("Separate report on ESEF conformity"). The subject matter (ESEF documents to be audited) to which the separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette.

INDEPENDENT AUDITOR'S REPORT

To DEUTZ Aktiengesellschaft, Cologne

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of DEUTZ Aktiengesellschaft, Köln, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of DEUTZ Aktiengesellschaft, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

- **1.** Accounting treatment of internally generated intangible assets
- **2.** Recoverability of goodwill
- **3.** Provisions for restructuring

Our presentation of these key audit matters has been structured in each case as follows:

1) Matter and issue

2) Audit approach and findings

3) Reference to further information

Hereinafter we present the key audit matters:

1) ACCOUNTING TREATMENT OF INTERNALLY GENERATED INTANGIBLE ASSETS

1) Expenses for the development of new technologies – in particular the development of new engine series – amounting to EUR 92.6 million (7.8% of consolidated total assets) are reported under the "Intangible assets" balance sheet item in the consolidated financial statements of the Company. Development costs are capitalized based on milestones within the development process that are defined by the Company. The assets are generally subject to amortization on a straight-line basis over the expected production cycle of eight to ten years.

A test is performed as of each balance sheet date to determine whether there are indications that an asset may be impaired. An impairment test is carried out at least once annually for intangible assets that are not yet available for use. Impairments are calculated by comparing the carrying amount against the recoverable amount. The recoverable amount of an asset is either the fair value of an asset or a cash-generating unit, less costs to sell, and the value in use, whichever is higher. For the purposes of impairment testing, assets are grouped, at the lowest level that makes sense, into cash-generating units for which cash inflows can be identified largely independently. In order to calculate the value in use, the expected future cash flows are discounted to their present values using a discount rate that reflects the current market expectations regarding the interest rate effect and the specific risks associated with the asset or cash-generating unit.

The calculations are based on model calculations that take into account the projections, with a finite planning period, and the corresponding carrying amounts as of 31 December 2020. These projections were also used to prepare the Group's medium-term plan prepared by the executive directors and adopted by the Supervisory Board. The financial surpluses are discounted using the weighted cost of capital of the asset in question or the cash-generating unit in question that applies based on the relevant term.

The impairment test identified impairment losses that had to be recognized on four series in the total amount of EUR 10.8 million.

The valuations are highly dependent not only on the estimates made by the executive directors with respect to the future cash inflows from the respective assets or cash-generating units, the discount rate used and other assumptions but also the effects of the coronavirus pandemic, and are therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

2) For the purposes of our audit, we first of all asked for the development process to be explained to us and assessed adherence to the requirements for capitalizing development costs based on milestones that had been reached.

We also assessed the procedures for identifying and evaluating issues and developments which could result in an impairment of the intangible assets, including the controls established. In a further step, we reviewed, among other things, the method used for performing impairment tests and assessed the assumptions and parameters used to determine whether they form an appropriate basis overall for the Company's executive directors to test internally generated intangible assets for impairment. After matching the future cash inflows used for the calculation against the model calculations and the medium-term business plan adopted by the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In this context, we also assessed the executive directors' estimate as to the impact of the coronavirus crisis on the Group's business and evaluated how this was taken into consideration in calculating the future cash inflows.

In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model. We performed ad hoc sensitivity analyses in order to reflect the uncertainty inherent in the projections. Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3) The Company's disclosures relating to internally generated intangible assets are contained in the sections of the notes to the consolidated financial statements entitled "Accounting policies" and "Notes to the balance sheet".

2) RECOVERABILITY OF GOODWILL

1) In the Company's consolidated financial statements goodwill amounting in total to EUR 54.4 million (4.6% of consolidated total assets) is reported under the "Intangible assets" balance sheet item.

Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally determined using the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. These projections also factor in expectations as to the future development of the market and assumptions as to the development of macroeconomic variables, as well as the expected impacts of the ongoing coronavirus crisis on the Group's business. The discount rate used is the weighted average cost of capital for the respective group of cash-generating units. The impairment test determined that no write-downs were necessary.

The outcome of this valuation is dependent to a large extent not only on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions , and is therefore also against the background of the effects of the Corona crisis, subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

2) As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In this connection, we also evaluated the assessment of the executive directors regarding the effects of the Corona crisis on the business activities of the Group and examined how they were taken into account in determining the future cash flows.. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model. In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company. We verified that the necessary disclosures were made in the notes to the consolidated financial statements relating to groups of cash-generating units for which a reasonably possible change in an assumption would result in the recoverable amount falling below the carrying amount of the cash-generating units including the allocated goodwill.

Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3) The Company's disclosures relating to goodwill are contained in the sections of the notes to the consolidated financial statements entitled "Accounting policies" and "Notes to the balance sheet".

PROVISIONS FOR RESTRUCTURING

1) In the Company's consolidated financial statements provisions for restructuring amounting to EUR 27.2 million (2.3% of consolidated total assets) are reported under the "Other provisions" balance sheet item.

DEUTZ Aktiengesellschaft has resolved “Transform for Growth”, an efficiency program to strengthen its competitiveness and power to innovate. The program comprises a considerable number of measures in a wide range of business areas. To ensure that excess staffing in areas affected by the need to transform is reduced with the greatest possible degree of social responsibility, in the context of a strategy paper entitled "Deutz Future Package – Transform for Growth", in August 2020 the Company and the general works council agreed a voluntary program with subsequent social plan and reconciliation of interests for up to 350 employees, and entered into a corresponding general works agreement. These binding agreements form the basis for the staff cuts at the Company. In order for a restructuring provision to be recognized, the general recognition criteria for provisions pursuant to IAS 37.14 must be satisfied, which are further specified for restructuring measures within the meaning of IAS 37.10 by the regulations in IAS 37.70 et seq. If the provision is a provision for termination benefits or an offer of partial early retirement, the requirements of IAS 19 apply. The Group recognized restructuring provisions in the consolidated financial statements in 2020 after agreeing with the employee representative committees on the strategic program and announcing that program. In our view, this matter was of particular significance for our audit, as the recognition of restructuring provisions is to a large extent based on estimates and assumptions made by the executive directors.

2) In the context of our audit, we assessed whether the individual recognition criteria were met and whether the measurement of the restructuring provisions was appropriate. To that end, we obtained and evaluated relevant evidence from the executive directors of DEUTZ Aktien-gesellschaft. We were able to satisfy ourselves that the matter and the estimates and assumptions made by the executive directors in connection with the recognition and measurement of restructuring provisions were sufficiently documented and substantiated. The measurement occurred within ranges considered by us to be reasonable.

3) The Company's disclosures relating to provisions for restructuring are contained in the sections of the notes to the consolidated financial statements entitled "Accounting policies" and "Notes to the balance sheet".

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Konzernlagebericht" of the group management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

REASONABLE ASSURANCE CONCLUSION

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the “ESEF documents”) contained in the attached electronic file DEUTZ_KA_LB_20201231.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format (“ESEF format”). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2020 contained in the “Report on the Audit of the Consolidated Financial Statements and on the Group Management Report” above.

BASIS FOR THE REASONABLE ASSURANCE CONCLUSION

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance

Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the "Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ESEF DOCUMENTS

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.

- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 25 June 2020. We were engaged by the supervisory board on 3 November 2020. We have been the group auditor of the DEUTZ Aktiengesellschaft, Köln, without interruption since the financial year 2014.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Bernd Boritzki.

Cologne, 10 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki	ppa. Gerd Tolls
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

Corporate Governance Declaration and Corporate Governance Report

For DEUTZ, a responsible approach to management that meets the standards of good **corporate governance** forms the basis for enhancing shareholder value over the long term. This is one of the main reasons why we attach great importance to the implementation of the **German Corporate Governance Code** (DCGK) and ensure quality and transparency in all key decisions and processes in our Company.

CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289f AND SECTION 315d HGB

Declaration of conformity with no exceptions

In 2020, the Board of Management and the Supervisory Board once again carefully considered to what extent it was proper and consistent with the Company's objectives for DEUTZ to apply all the guidelines and recommendations of the DCGK. As a result, DEUTZ AG has complied with all the recommendations of the Code, as amended on December 16, 2019, since submitting its previous declaration of conformity dated December 9, 2020.

The current declaration of conformity in accordance with section 161 AktG, which the Board of Management and Supervisory Board submitted on December 9, 2020, can be accessed in the 'Investor Relations / Corporate Governance' section of the Company's website at **www.deutz.com**. The previous declarations of conformity can also be viewed and downloaded there.

Composition of the Board of Management and Supervisory Board; composition and operating procedures of Supervisory Board committees

At the time the responsibility statement was issued, the Company's Board of Management consisted of four people: Dr. Ing. Frank Hiller (Chairman, responsible for technical and head-office functions, and sustainability), Dr. Andreas Strecker (responsible for finance, human resources, purchasing, and information services until February 28, 2021), Mr. Michael Wellenzohn (responsible for sales, service, and marketing), and Dr. Sebastian C. Schulte (responsible for finance, human resources, purchasing, and information services from March 1, 2021).

At the Supervisory Board meeting on August 4, 2020, following preparatory work by the Human Resources Committee, the Supervisory Board appointed Mr. Sebastian C. Schulte as a member of the Board of Management for the period from January 1, 2021 to December 31, 2023. From March 1, 2021, following his appointment to the Board of Management on January 1, 2021, Dr. Sebastian C. Schulte assumed responsibility for finance, human resources, purchasing, and information services, as well as the role of Human Resources Director, from Dr. Andreas Strecker, whose term of appointment on the Board of Management ended on February 28, 2021.

At the Supervisory Board meeting on February 10, 2021, following preparatory work by the Human Resources Committee, the Supervisory Board extended Dr. Ing. Frank Hiller's appointment by a further five years, i.e. for the period from January 1, 2022 to December 31, 2026.

In accordance with the provisions of the German Codetermination Act (MitbestG), the Supervisory Board of DEUTZ AG comprises twelve members, six members being the representatives of the shareholders and six members being the representatives of the employees.

In 2020, the following changes were made to the composition of the Supervisory Board:

At the request of the Supervisory Board and by means of a resolution dated October 7, 2020, the local court in Cologne removed Dr. Ing. Ulrich Dohle as a member of the Supervisory Board and appointed Dr. Ing. Rudolf Maier as a member of the Supervisory Board for a term that is limited until the next Annual General Meeting in 2021. This limited term is in line with the recommendation of the German Corporate Governance Code (article C.15, sentence 2 in the version dated December 16, 2019). Due to ill health, Dr. Ing. Ulrich Dohle was no longer able to fulfill his mandate as a member of the Supervisory Board and therefore had to be relieved of his office.

There were no changes to the composition of the Supervisory Board's committees in 2020.

The Supervisory Board has created four committees to enable it to perform its duties effectively. They are the Human Resources Committee, the Audit Committee, the Arbitration Committee, and the Nominations Committee. The Human Resources Committee consists of two representatives of the shareholders and one employee representative; the Audit and Arbitration Committees both consist of two shareholder representatives and two employee representatives; and the Nominations Committee has three members, all of whom represent the shareholders. The Audit Committee follows its own rules of procedure, which can be viewed on the DEUTZ AG website, while the other committees work according to the rules of procedure that apply to the (full) Supervisory Board. In the reporting year, the Supervisory Board completed an efficiency audit (article 5.6 DCGK, version dated February 7, 2017) that had been conducted in the prior year by an external consultancy. The results were discussed in detail by the Supervisory Board as a whole.

The members of the Human Resources Committee are Dr. Ing. Bernd Bohr (chairperson), Ms. Corinna Töpfer-Hartung, and Mr. Alois Ludwig. The Human Resources Committee makes preparations for all Supervisory Board decisions concerning the appointment of members of the Board of Management and their contracts of employment, including the remuneration specified therein, and all issues arising in this connection. It particularly focuses on long-term succession planning, which involves identifying suitable candidates at an early stage. In this task, it is supported by external consultants. The committee held five meetings in 2020, all of which were attended by all members of the committee. Among the main matters addressed were succession planning for the Board of Management, the drawing up of a new remuneration system for the Board of Management in response to the changes brought about by the German Act Implementing the Second Shareholder Rights' Directive (ARUG II), the achievement of the Board of Management's targets for 2019, and the setting of Board of Management targets, including medium-term targets, for 2020.

The Audit Committee's members are Ms. Patricia Geibel-Conrad (chairperson), Ms. Sabine Beutert (deputy chairperson), Ms. Corinna Töpfer-Hartung, and Dr. Ing. Bernd Bohr. Its work primarily focused on the preparatory review of the annual and consolidated financial statements, including the combined management report, and of DEUTZ AG's separate combined non-financial report. The recommendations prepared for the Supervisory Board for these resolutions were adopted. The auditor's report on its review of the condensed consolidated financial statements and the interim management report was discussed at length together with the Board of Management and in the presence of the auditor. The quarterly statements were discussed with the Board of Management.

The committee held four meetings in 2020, all of which were attended by all the members of the committee and Board of Management and, except on one occasion, by the auditor. The chairperson of the Audit Committee and the auditor also shared information between the meetings on an ad hoc basis. For individual agenda items, the heads of relevant head-office functions were also available in the committee's meetings to answer questions and give reports.

At its meeting on March 9, 2021, which was attended by the auditor and the Board of Management, the Audit Committee carried out a detailed review of the annual and consolidated financial statements based on the statements themselves, the combined management report of DEUTZ AG, the Board of Management report, and the corresponding auditor's reports for 2020. During the meeting, the auditor gave a detailed report on the process and key findings of the audits. The internal control system relating to the accounting system, the early-warning system for risk, the key audit matters, and the defined focus of the audit were discussed in detail; according to the findings of the audits, they did not give rise to any issues. The auditor provided in-depth answers to all further questions. The committee's preparatory review also encompassed DEUTZ AG's separate combined non-financial report. In preparation for the review, the Supervisory Board had engaged PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft to also conduct a review with limited assurance of the non-financial report and to produce a related assurance report. The auditor reported in detail on this review as well. This was followed by an intensive discussion of the main results and findings. The chairperson of the Audit Committee reported in detail on the committee's review of the annual and consolidated financial statements at the full Supervisory Board meeting.

The Audit Committee monitored the independence and qualifications of the auditor, the requirements with regard to rotation, and the quality of the auditing. It specified the catalog of approvable non-audit services to be performed by the auditor and consented to the services rendered. It appointed the auditor selected by the AGM for 2020, determined the focus of the audit, and set the auditor's fees.

Because of the unprecedented circumstances brought about by the coronavirus pandemic, the Board of Management reported regularly on the pandemic's impact on the earnings and net assets of the Group's operating segments, the liquidity and funding situation, the Group's working capital, and the relevant measures that were being taken. The measurement of investments, goodwill, and intangible assets, non-financial reporting, and accounting-related matters were also addressed. At several of its meetings, the committee examined the effectiveness and refinement of the internal control system, the risk management system, the effectiveness and findings of Corporate Audit, the compliance management system, and the reports on pending and potential legal disputes. In various meetings, the ICS coordinator, the head of Corporate Audit, and the Chief Compliance Officer gave reports on these matters and answered the Audit Committee's questions.

In response to the new provisions of the German Stock Corporation Act (AktG) regarding transactions with related parties, the Supervisory Board and Board of Management agreed on an internal process that meets the requirement to obtain the Supervisory Board's consent for such transactions. The Supervisory Board approved the internal control process for these transactions ('related party transactions') and delegated responsibility for the approval and monitoring of this process to the Audit Committee. There were no transactions requiring approval or disclosure in the reporting year.

The Audit Committee kept up to date with the changes to the regulatory environment and discussed the measures that would need to be taken by DEUTZ AG to meet the requirements of the ESEF regulation, to refine the non-financial reporting process, and to implement the new arrangements for the risk management system.

The chairperson of the Audit Committee routinely provided updates on the committee's work at subsequent meetings of the full Supervisory Board.

The members of the Arbitration Committee are Dr. Ing. Bernd Bohr (chairperson), Ms. Corinna Töpfer-Hartung, Ms. Sophie Albrecht, and Mr. Ali Yener. The Arbitration Committee set up pursuant to section 27 (3) of the German Codetermination Act (MitbestG) is responsible for the activities described in section 31 (3) MitbestG. It did not need to be convened during the year under review.

The members of the Nomination Committee are Dr. Ing. Bernd Bohr (chairperson), Ms. Sophie Albrecht, and Mr. Alois Ludwig. The Nominations Committee is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The Nominations Committee met once in 2020. Discussion at this meeting, which was attended by all members of the committee, focused on who would succeed Dr. Ing. Ulrich Dohle following his departure from the Supervisory Board due to ill health.

The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.

There were no changes to the composition of the Supervisory Board's committees in 2020.

The current members of the Supervisory Board are all considered independent within the meaning of article C.6 sentence 2 DCGK (version dated December 16, 2019). The names of the independent members are Dr. Ing. Bernd Bohr, Ms. Corinna Töpfer-Hartung, Ms. Sophie Albrecht, Ms. Sabine Beutert, Mr. Yavuz Büyükdag, Dr. Fabian Dietrich, Dr. Ing. Ulrich Dohle, Mr. Hans-Peter Finken, Ms. Patricia Geibel-Conrad, Mr. Alois Ludwig, Dr. Ing. Rudolf Maier, Dr. Dietmar Voggenreiter, and Mr. Ali Yener.

Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 166 to 167.

Targets and timeframes in accordance with sections 76 (4), 111 (5) AktG

On August 21, 2017, the Board of Management of DEUTZ AG set certain targets and timeframes in accordance with section 76 (4) AktG. The proportion of women employed by DEUTZ AG at the top level of senior management below the Board of Management is to be increased to 13 percent by June 30, 2022. The proportion of women at the second level of senior management below the Board of Management is to be increased to 7 percent over the same period. The top level of senior management below the Board of Management encompasses all managers in Germany who report directly to a member of the Board of Management. The second level of senior management below the Board of Management comprises all managers in Germany who report directly to a manager in the top level of senior management.

To ensure that women are taken into consideration for vacant managerial positions, DEUTZ AG has adopted a staff development program. When positions in the top and second levels of senior management below the Board of Management become available, the Board of Management and the HR department are striving to ensure that at least one woman is always shortlisted for the post (article A.1. DCGK, version dated December 16, 2019). This means that external recruitment must focus on female managers.

As at the end of the reporting year, the proportion of women was 6 percent in the top level of senior management below the Board of Management and 16 percent in the second level of senior management below the Board of Management. DEUTZ AG thus attained the aforementioned target for the second level of senior management. The target for the top level of senior management was missed.

The Company remains unable to achieve the target for the first level of senior management because only a few management positions have had to be filled since the Board of Management set the targets on August 21, 2017. Furthermore, it remains the case that women continue to be under-represented in the scientific and technical degree courses that are of particular relevance to DEUTZ AG.

At its meeting on September 21, 2017, the Supervisory Board of DEUTZ AG set the following target in accordance with section 111 (5) AktG: On June 30, 2022, the Board of Management of DEUTZ AG should have at least one female member.

Disclosures regarding compliance with the statutory quotas for women and men on the Supervisory Board

In accordance with the Law for the equal participation of women and men in managerial positions in the private and public sectors (law on the quota for women), the Supervisory Board of DEUTZ AG had to have at least four female members and four male members following the election of the Supervisory Board at the Annual General Meeting on April 26, 2018, if not before.

The Supervisory Board of DEUTZ AG has been in compliance with these statutory quotas since the Supervisory Board election held in 2018.

Description of the diversity plan for the composition of the Board of Management

The Supervisory Board, with the support of the Human Resources Committee and the involvement of the Board of Management, carries out long-term planning for appointments to the Board of Management. At its meeting on September 27, 2018, the Supervisory Board agreed the following diversity plan for the composition of the Board of Management, incorporating the recommendations of the German Corporate Governance Code in the version dated February 7, 2017 and also complying with the German Corporate Governance Code in the version dated December 16, 2019:

1. Description of the diversity plan

The Supervisory Board has developed the following diversity plan for the composition of the Board of Management in accordance with section 289f (2) no. 6 HGB: In addition to basic suitability criteria such as good character, integrity, outstanding leadership qualities, professional expertise needed for the member's specific remit, proven track record, knowledge of the Company, and the ability to adapt business models and processes to the needs of a changing world, the Supervisory Board also considers **diversity** when selecting candidates for a position on the Board of Management. The Supervisory Board regards diversity as meaning, in particular:

- appropriate gender representation
- an adequate mix of ages among the members of the Board of Management
- a range of educational backgrounds and occupations.

2. Objectives of the diversity plan

The objective of the diversity plan for the Board of Management is to consciously harness diversity as a means of driving the Company forward. After all, taking account of different perspectives, skills, backgrounds, and experience will be key to maintaining our competitiveness and success over the long term. Diversity within the Board of Management will, in particular, help us to better understand new business models and the wide-ranging expectations of our customers from around the world.

3. Manner of implementation

The Supervisory Board takes particular account of the following aspects with regard to the composition of the Board of Management:

- Members of the Board of Management should have several years of managerial experience.
- Members of the Board of Management should bring experience from a wide range of occupations and professional backgrounds.
- The Board of Management collectively should have technical expertise, particularly knowledge and experience of manufacturing and sales of all types of engines and of other technical products, as well as international experience.
- The Board of Management collectively should have many years' experience in the areas of research and development, production, sales, finance, and human resources.

- The Board of Management collectively should have international experience.

- The Supervisory Board has formally agreed a target quota in accordance with the Law for the equal participation of women and men in managerial positions in the private and public sectors. The resolution stipulates that there should be at least one woman on the Board of Management of DEUTZ AG on June 30, 2022.

- An age limit of 65 (standard retirement age) applies in principle to the members of the Board of Management.

The Supervisory Board determines which candidate should be offered a specific position on the Board of Management. Its decision is based on the best interests of the Company, taking all the circumstances of the individual case into account.

4. Current composition

As well as many years of experience within the Group, the members of the Board of Management also have extensive knowledge and experience – some international – from various activities outside DEUTZ AG. In its current composition, the three-person Board of Management meets all the specified targets apart from that regarding the proportion of women. The current age range on the Board of Management is 42 to 54 years. The average age of the Board of Management members is 50.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD, PROFILE OF THE SKILLS AND EXPERTISE REQUIRED OF ITS MEMBERS, AND DESCRIPTION OF THE DIVERSITY PLAN

The diversity plan for the Supervisory Board was adopted by the Supervisory Board at its meeting on September 27, 2018 together with the objectives for the Supervisory Board's composition and profile of skills and expertise:

The Supervisory Board of DEUTZ AG has defined specific targets for its composition and has drawn up a profile of skills and expertise for the Supervisory Board as a whole in accordance with article 5.4.1 of the German Corporate Governance Code (version dated February 7, 2017). The composition of the Supervisory Board has to ensure that its members have the knowledge, skills, and professional experience required to properly perform all duties within an international group of companies. This does not mean that each individual member of the Supervisory Board must have all the knowledge and experience required, but that for each key area of the Supervisory Board's activities, at least one member has competence in that area so that collectively – including the employee representatives and taking account of the special features of the right of codetermination – the Supervisory Board covers the required knowledge and experience.

1. Description of the areas of expertise required for the Supervisory Board

The Supervisory Board of DEUTZ AG should be composed of individuals who collectively provide a range of skills and expertise that ensures the Supervisory Board can comprehensively and effectively advise and supervise the Board of Management on every aspect of DEUTZ's business activity. The Supervisory Board regards the following as key elements of this skill set:

- Experience in managing and supervising international companies

- Familiarity of the members collectively with the Company's key areas of activity and of the associated markets and value chains

- Understanding of the Company's strategy and its future strategic development, including against the background of any changing market requirements

- Knowledge of codetermination law

- Adequate knowledge of finance, financial reporting, accounting, **compliance**, and risk management

- In-depth experience in the area of technological research and development, industrial manufacturing, or service
- In-depth experience in the area of sales, service, or marketing in the industrial sector for engines, drive systems, or associated machinery
- Expertise in corporate social responsibility (CSR)
- Expertise in digital strategy and Industry 4.0
- Communications expertise
- Fundamental knowledge of stock market law, stock corporation law, and the financial markets

In addition, in accordance with the requirements of section 100 (5) AktG, at least one member of the Supervisory Board and the Audit Committee must have expertise in the areas of accounting or auditing (financial expert) and the members of the Supervisory Board must, collectively, be familiar with the engine manufacturing and drive systems sector or with associated machinery.

2. Minimum requirements for professional expertise and personal capabilities

The individual members of the Supervisory Board should have certain minimum competencies that are necessary for the proper performance of their role:

- The ability to understand and critically scrutinize the business model
- Fundamental knowledge of the relevant legal provisions
- Fundamental knowledge of **compliance**
- Fundamental financial expertise, particularly in accounting and annual financial statements
- Ability to examine the annual financial statements, if necessary with the assistance of the independent auditor
- The ability to understand, critically scrutinize, and draw conclusions from the reports of the Board of Management and of the Supervisory Board committees
- The ability to assess the propriety, commercial viability, appropriateness, and legality of business decisions and to check their plausibility
- Willingness and ability to devote the time and effort required
- Willingness to undertake ongoing professional development in the form of both inhouse and external training activities
- Personal independence and integrity

3. Objectives for the composition of the Supervisory Board as a whole

- **Diversity**
  In terms of the **diversity** of its composition, the Supervisory Board strives to ensure the appropriate participation of both genders, a range of professional and international experience, and the inclusion of members with many years of relevant experience. As DEUTZ AG is a publicly listed company that is subject to the German Codetermination Act, the Supervisory Board must include at least 30 percent women and at least 30 percent men in accordance with the principles laid down in section 96 (2) AktG.

- **International expertise**
  As DEUTZ is an international group of companies, care must be taken to ensure that the Supervisory Board has a sufficient number of members with many years of international experience. Supervisory Board members can satisfy this requirement in a variety of ways, e.g. by currently or previously holding a senior management role in an international company or by currently or previously living and working in another country.

- **Independence and potential conflicts of interest**
  More than half of the Supervisory Board members should be independent within the meaning of article 5.4.2 of the German Corporate Governance Code. The Supervisory Board does not believe that fulfillment of the Code's independence criteria can be called into question solely because a member exercises their Supervisory Board mandate as an employee representative. Supervisory Board members must not hold directorships or similar positions or advisory functions for major competitors of the DEUTZ Group. Conflicts of interest that are substantial and not merely temporary relating to the personal circumstances of a Supervisory Board member shall result in the termination of the mandate.

- **Time required to perform Supervisory Board duties**
  The Supervisory Board believes it is important that both its current members and future candidates for Supervisory Board seats are able to devote sufficient time to preparing for and following up the regular Supervisory Board meetings, taking part in such meetings, and reading the regular reports. Additional time is required if members are elected to committees, particularly if they chair such committees. Based on these criteria, the time demanded of Supervisory Board members and candidates in respect of seats on other supervisory or advisory bodies, their active professional activity, or other duties must be taken into account.

- **Regular review/evaluation**
  (1) In the process for selecting shareholder representatives, the Nominations Committee proposes candidates to the Supervisory Board, taking account of the above criteria, and the Supervisory Board then proposes these candidates for election by the Annual General Meeting. The representatives to be elected to the Supervisory Board by the employees must also fulfill the key criteria of this profile of skills and expertise.

  (2) In addition, evaluations must be carried out at regular intervals to establish the extent to which the members of the Supervisory Board and the composition of the Supervisory Board remain compliant with the objectives specified in point (1) and the Supervisory Board in its existing composition is able to carry out its duties effectively.

4. Diversity plan

- **Description of the diversity plan**
  The Supervisory Board has also resolved to strive for a diverse composition, particularly with regard to age, gender, educational background, and occupation.

- **Objective of the diversity plan**
  The objective of the diversity plan for the Supervisory Board is to ensure that it has a broad understanding of the social and business requirements placed upon DEUTZ AG. In particular, diversity should help the Supervisory Board to judge the business decisions made by the Board of Management from different perspectives and on the basis of a wide range of experience.

- **Manner in which the diversity plan is to be implemented**
  The Supervisory Board must be able to draw on as wide a range of expertise, capabilities, and experience as possible. It is therefore important to take due account of diversity in its composition and, when preparing election nominations, to make sure that the profiles of the candidates complement those of the existing members.

In accordance with statutory provisions, the Supervisory Board includes at least 30 percent women and at least 30 percent men.

A further target for the composition of the Supervisory Board is that members do not remain in post beyond the end of the Annual General Meeting following the member's 75th birthday (standard retirement age), unless special circumstances apply. Nor should members of the Supervisory Board serve any more than three full terms, unless special circumstances apply.

Results of the diversity plan achieved in the past year The current composition of the Supervisory Board reflects the stated objectives and matches the agreed profile of skills and expertise.

Disclosures relevant to corporate management practices: compliance management system, environmental, quality, and energy management

DEUTZ AG has a compliance management system that is firmly anchored in the Company's organizational structure. The system is continually enhanced in order to meet changing requirements. The Chairman of the Board of Management, Dr. Ing. Hiller, is the member of the Board of Management responsible for **compliance**.

The prime objective of the compliance management system is to prevent violations of applicable laws, rules, regulations, and internal policies. To this end, employees are given help in familiarizing themselves with the relevant laws, regulations, and policies as well as guidance on how to apply them correctly. This is primarily achieved through a structured policy management system in which existing policies are reviewed on an ongoing basis to see if they need updating and new policies are published. The policy management system is based on the code of conduct, which provides a framework for ensuring that behavior toward business partners and employees is fair and in compliance with the law.

In 2020, the code of conduct was translated into further languages (Chinese, French, Italian, Russian, and Spanish) and handed out to employees, who can also access it on internal communications platforms. Third parties can view the code of conduct on the Company's website. The guidelines set out in the code of conduct are supplemented by and formalized in specific policies, including a compliance policy, a policy on gifts and entertainment, an information security policy, a policy on engaging external sales service providers, an anti-money laundering policy, a policy on export controls, a privacy policy, and an insider trading policy. These policies help to ensure that employees are aware of the relevant laws and regulations and are able to apply them correctly.

The Board of Management supports and promotes ethical conduct. It is unreservedly committed to corporate compliance and declines to be involved in any transactions that are inconsistent with these values. The Board of Management does not tolerate any form of corruption and is fully committed to compliance with competition law and to incorporating sustainability aspects into the Company's activities.

Training is intended to ensure that employees are aware of the relevant laws and corporate policies, and that they comply with them at all times in their day-to-day work. Salaried staff in the head-office sales, procurement, research and development, and administration units, as well as in the subsidiaries, generally receive annual training sessions that are specifically tailored to their areas of activity. In the production plants, **compliance** training takes place in conjunction with the regular safety training. In the year under review, compliance activities again centered on training and advising employees (both at the German sites and at affiliated companies abroad), focusing on the code of conduct, data protection, gifts and entertainment, export controls, competition law, and contract law. This included training delivered via an online e-learning program that featured modules on antitrust law, data protection, health and safety, and prevention of corruption. In 2020, a total of 2,932 administrative employees successfully completed all modules of the e-learning program that had been assigned to them.

A Compliance Officer appointed by the Board of Management coordinates compliance activities at DEUTZ. The individual business units and subsidiaries have their own compliance coordinators, who are responsible for compliance in their organizations and submit regular structured reports in writing to the Compliance Officer, who in turn reports to the Board of Management and Audit Committee. The basic principles of the compliance organization are described in the compliance organizational policy. The duties of the relevant employees are set out in job descriptions.

Employees can supply information or direct questions to line managers, compliance coordinators, the Compliance Officer, or the managers responsible for the legal affairs or internal audit units. Furthermore, the Company's website incorporates a whistleblowing system that can also be accessed by non-employees. Any information supplied is rigorously followed up. Any necessary investigations are carried out by the Compliance Officer, with external support if required.

Regular meetings are held to develop, discuss, and coordinate compliance initiatives. The compliance activities focus on preventing corruption, tackling money laundering, and complying with export regulations (including export controls). They also ensure safety in the workplace, IT and data security, corporate security, and product safety. A further aim is to prevent breaches of environmental, antitrust, and insider trading laws.

As and when needed, the Board of Management and the Compliance Officer take legal advice on establishing and continuously improving the compliance management system. The internal audit department reviews the activities, and the Audit Committee monitors them on behalf of the Supervisory Board.

Another essential element of corporate management is rigorous environmental, quality, and energy management. In the year under review, DEUTZ AG continued to satisfy the quality management requirements in accordance with ISO 9001, the environmental management requirements in accordance with ISO 14001, and the energy management requirements in accordance with ISO 50001. The relevant certificates from TÜV Rheinland can be found on the DEUTZ AG website.

All standards set by the Deutsches Institut für Normung e.V., Berlin (DIN) can be inspected free of charge at DIN standards repositories.

CORPORATE GOVERNANCE REPORT

Basic principles and objectives of the composition of the Supervisory Board; particularly, conflicts of interest/independence of Supervisory Board members and the consideration of women

At its meeting held on September 27, 2018, the Supervisory Board adopted the profile of skills and expertise required for its members together with the objectives regarding its composition in accordance with articles 5.4.1 (1) and (2), 5.4.2 DCGK in the version dated February 7, 2017 (now in accordance with article C.1 et seq. DCGK in the version dated December 16, 2019). We refer here to our detailed remarks on page 181 onward.

Except for the target relating to female representation, which was achieved on the shareholder representative side after the Supervisory Board election in 2018, the Supervisory Board has continuously met these objectives since 2012. It has even exceeded them in cases such as the international experience available on the Supervisory Board and the number of independent members. The current members of the Supervisory Board are all considered independent within the meaning of article C.6 sentence 2 DCGK (version dated December 16, 2019). No conflicts of interest between members of the Supervisory Board and DEUTZ AG arose in the year under review.

Consideration of women when making appointments to the Board of Management

At the time this annual report was published, the Board of Management of DEUTZ AG consisted of four members, none of whom were female. This equates to a ratio of 0 percent.

Responsible risk management

A forward-looking, prudent, and responsible approach to corporate risk is a core aspect of good **corporate governance** and forms the basis for the risk management system at DEUTZ. The Board of Management regularly notifies the Supervisory Board of any existing or anticipated risks. Details of the DEUTZ Group's risk management systems can be found in the risk report on page 59 onward.

Comprehensive transparency and active investor relations

The transparent presentation of developments and decisions in a company forms the core of any model system of **corporate governance**. Regular, open dialog with all stakeholders ensures trust in a company and its value creation process. DEUTZ therefore attaches the greatest importance to ensuring that all relevant target groups are given the same information at the same time and in a timely manner.

We achieve this objective by using various media. DEUTZ AG reports on the performance and development of its business and on significant changes and events four times a year in its quarterly statements, half-year report, and annual report. The quarterly statements and half-year reports are published within 45 days of the end of a reporting period; the annual report is published within 90 days of the end of the financial year. The Company maintains contact with investors and analysts through its regular investor relations activities. In addition to the annual analysts' meeting held when the Company's consolidated financial statements are published, conference calls for analysts and institutional investors also take place when the quarterly statements and half-year report are published. The Annual General Meeting is usually held in the first five months of the year; shareholders who do not attend the AGM in person can instruct proxies to vote on their behalf.

Our website also offers comprehensive information on the Company: Annual reports, half-year reports, and quarterly statements, press releases and ad hoc announcements, analyst recommendations, and investor relations presentations, as well as key dates in the financial calendar, can all be found at **www.deutz.com**. The Company's Statutes are also available online. Almost all the pages on our website are provided in both German and English to ensure that important company news and information is as accessible as possible, including to an international audience. Apart from the regularly published information, DEUTZ AG also provides details of circumstances that are not in the public domain but that could have a significant impact on DEUTZ's share price were they to become known. The Company's reporting policy therefore complies both with legal requirements and the guidelines in the DCGK (version dated December 16, 2019).

Accounting and auditing

DEUTZ AG's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements are prepared by the Board of Management and reviewed by the auditor.

The auditor has agreed to inform the chairperson of the Supervisory Board or the chairperson of the Audit Committee without delay if grounds for disqualification or release of the auditor, or any misrepresentations in the declaration of conformity, come to light during the audit. The auditor informs the chairperson of the Supervisory Board without delay of any issues or incidents relevant to the role of the Supervisory Board that arise during the audit of financial statements.

Conflicts of interest and consultancy agreements

Information about conflicts of interests in relation to Supervisory Board members can be found under 'Basic principles and objectives of the composition of the Supervisory Board' at the start of this corporate governance report.

The Company does not have any consultancy agreements with members of the Supervisory Board.

The members of the Board of Management must disclose any conflicts of interest to the Supervisory Board. The Supervisory Board then reports these cases, along with any conflicts of interest relating to its own members, to the Annual General Meeting.

Remuneration report

The remuneration of the Board of Management complies with the German Act on the Appropriateness of Management Board Remuneration (VorstAG) and the recommendations in the DCGK. From 2021, the remuneration will also comply with the German Act Implementing the Second Shareholder Rights' Directive (ARUG II).

A description of the main features of the remuneration systems for the Board of Management and Supervisory Board, along with details of the remuneration for each member, can be found in the remuneration report on page 55 onward of the combined management report.

Dealings subject to reporting requirements

Article 19 of the Market Abuse Regulation (MAR) state that persons with executive functions or persons with whom they are closely associated must notify both the company and the German Federal Financial Supervisory Authority (BaFin) of their own dealings in shares of the company or in financial instruments of the company based on such shares.

In 2020, Dr. Strecker disclosed the purchase of DEUTZ shares in accordance with article 19 MAR. No other persons required to make such a disclosure did so before the adoption of the 2020 annual financial statements. Transactions disclosed in previous years are published on the DEUTZ AG website.

GLOSSARY

Audit An analysis examining whether processes, specifications, and policies meet required standards, for example for certification in accordance with a particular ISO standard. The supplier management audits conducted by DEUTZ examine whether suppliers meet the requirements imposed on them, e.g. in the code of conduct for suppliers.

Bonus Variable remuneration components granted to Board of Management members in addition to their fixed remuneration and paid if contractually agreed conditions are met.

Cash flow statement Shows the Group's inflows and outflows of cash over the financial year. It distinguishes between cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities. It also shows the change in cash and cash equivalents.

China IV Chinese emissions legislation.

Cold testing An inspection method in the assembly process for internal combustion engines. It checks whether the preceding stages of assembly were carried out correctly and whether the assembled engine components function properly. Contrary to hot testing, cold testing involves running diagnostic programs without any fuel being used.

CNG (compressed natural gas) A natural gas, the main component of which is methane. Its major advantage from an environmental perspective is its potential for the future. This is because biogas can be added to CNG, as can synthetic natural gas produced with electricity from renewable sources (PtG: power-to-gas), thereby significantly improving the environmental footprint of CNG-powered vehicles.

Compliance Denotes the entirety of measures taken by a company to comply with laws, regulations and directives and also to comply with contractual obligations and self-imposed obligations.

Condition monitoring Continual or regular monitoring of the condition of machinery, for example engines in DEUTZ's case.

Conrod Component connecting the crankshaft and piston in a piston engine.

Corporate citizenship Denotes a company's corporate social responsibility activities.

Corporate governance Responsible management and control of a company with a view to long-term value creation and increasing shareholder value.

Counterparty risk Describes the general default risk relating to a contract between at least two parties. It is the risk that one of the counterparties no longer fulfills its obligations, or is no longer able to fulfill them.

Deferred taxes Differences between the calculation of profit under tax law and under IAS result in differing tax calculations. These differences in the amount of tax are recognized on the balance sheet as deferred tax assets or liabilities.

Diversity Acceptance of the differences between individual employees, which – when embedded in a tolerant corporate culture – can be utilized to boost the success of a company. Employees should not suffer discrimination due to ethnic origin, gender, age, religion, sexual orientation, disability, etc. They should all have equal opportunities.

Downsizing Reduction of technical dimensions, such as weight and capacity, but delivering the same or similar power output.

EBITDA (earnings before interest, tax, depreciation, and amortization) Earnings before interest, tax, depreciation of property, plant, and equipment, and amortization of intangible assets.

EBIT margin before exceptional items Earnings before interest and tax (EBIT) less significant income generated or expenses that are incurred outside the scope of the Company's ordinary business activities and are unlikely to recur, relative to consolidated revenue.

Exhaust aftertreatment Ensures compliance with statutory emissions limits for pollutants such as nitrogen oxides (NOx) and soot particles through the cleansing of combustion exhaust gases. In vehicles, exhaust aftertreatment is achieved by the use of catalytic converters and diesel particulate filters.

E-fuels Synthetic fuels that are produced from water and carbon dioxide (CO_2) using electricity.

EMEA Abbreviation for the economic area consisting of Europe, the Middle East, and Africa.

End-of-line testing In battery assembly, this is the final mechanical and, more importantly, electrical inspection of a battery before delivery. The automated testing process involves checking the electrical characteristics of the battery and conducting a final quality check. To ensure the traceability of the individual batteries, the EOL testing system captures technical data and measurements for each completed serial number and stores them in a database.

EU Stage V Exhaust emissions standard laid down by the European Union for off-highway applications. It sets limits for pollutants such as nitrogen oxide, hydrocarbons, and soot particulates in exhaust gas.

Factoring Form of funding for companies in which open receivables, e.g. trade receivables, are sold to a third party in order to improve the company's liquidity.

Free float The proportion of shares in a public limited company (Aktiengesellschaft) not held by a major shareholder. According to the Deutsche Börse definition, shareholdings of less than 5 percent are classified as free float.

Forward Individually structured, non-exchange-traded forward transaction.

Genset A generator unit that generates electrical energy from available resources, specifically so that the equipment being powered is not dependent on the electricity grid.

German Corporate Governance Code Sets out statutory provisions concerning the management and supervision of listed companies in Germany. It also contains recommendations and suggestions on good and responsible corporate governance.

German Sustainability Code Cross-sectoral transparency standard for reporting on companies' sustainability efforts. It contains 20 criteria that can be used as a framework for the non-financial report.

Green hydrogen Hydrogen obtained by using renewable energies, such as wind or solar power, to split water. This is the most environmentally friendly of the methods for obtaining hydrogen, which are categorized using colors.

Hedging Countering interest-rate, currency, price, or similar risks through the use of derivative financial instruments that limit the risk associated with the underlying transactions.

ICS (internal control system) System for monitoring the Company's principles, procedures, and measures (controls) that is designed to ensure the organizational implementation of senior management's decisions on the effectiveness and efficiency of business activities, on the propriety and reliability of internal and external financial reporting, and on compliance with the legal requirements applicable to the company.

IFRS (International Financial Reporting Standards) International financial reporting standards for companies that are issued by the International Accounting Standards Board (IASB). They are separate from national legal requirements and set out rules that are designed to ensure internationally comparable single-entity and consolidated financial statements.

IMS (integrated management system) Standardized structure bringing together methods and tools for ensuring compliance with requirements in various areas, such as quality, environmental protection, and health and safety, in order to enable comprehensive management and control.

Industry 4.0 Describes the digital transformation of industry. Components autonomously communicate with the production plant and, if needed, can request a repair or order materials themselves. Industry 4.0 is characterized by the intelligent networking of people, machines, and industrial processes.

IoT (Internet of Things) Collective term for technologies in a global, internet-based infrastructure that enables physical and virtual objects to be networked with each other and uses information and communication technologies to enable the objects to work together. The implemented functions facilitate interaction between people and electronic systems, enabling tasks to be completed by a device autonomously without human intervention.

Lean philosophy A concept based on lean manufacturing that describes a way of organizing production processes. It aims to improve productivity, production factors, product quality, and production flexibility by avoiding resources being wasted, whether time, human resources, money, material, or space.

Long-term incentive (LTI) plan A type of remuneration offered to members of the Board of Management and selected senior managers in order to incentivize them to systematically implement the corporate strategy and thereby benefit financially from the Company's long-term success.

LPG (liquefied petroleum gas) Mixture of propane and butane that is liquid at room temperature and under low compression (< 10 bar). The main advantages of LPG are the high energy density in the gas tank and the reduction in CO_2 emissions produced during combustion compared with those of a diesel engine of a similar size.

Material compliance Adherence to environmental and material-specific laws, regulations, and directives – such as REACH, RoHS, and the provisions governing the use of conflict minerals – that restrict or prohibit various substances and materials in products with the aim of protecting people and the environment. It is also the name of the department at DEUTZ that deals with compliance with the relevant rules.

Material handling Equipment for moving goods within contained areas, such as airports or factories. Examples include forklift trucks, telehandlers, lifting platforms, and ground support equipment.

Net method Method for determining the net or residual risk. It calculates the risk that would remain after implementation of risk-mitigating measures: gross risk less all potentially negative effects, which have been reduced by taking suitable measures.

Non-captive Market segment in which original equipment and commercial vehicle manufacturers purchase engines from third-party manufacturers to meet their engine needs. The non-captive market is accessible to independent engine manufacturers.

Off-highway Engine-powered applications whose use on roads is subject to restrictions, e.g. trains, ships, agricultural vehicles, and construction vehicles.

On-road Engine-powered applications that, unlike off-highway applications, traditionally use the roads, e.g. trucks.

Option Contract that, until the expiry date, gives the holder the right to buy – and the writer the obligation to sell – an underlying instrument (a security or a product/commodity) at an exercise price that has been fixed in advance.

Paris Agreement Climate agreement adopted on December 12, 2015 that was signed by 195 parties at the UN climate change conference. Its objective is to limit global warming to an increase in temperature of below 1.5 degrees Celsius.

Powerpack DEUTZ powerpacks contain an engine frame, exhaust aftertreatment system, and cooling system. The dimensions of the pack are tailored to the specific engine, allowing flexible installation even in tight spaces. The water cooler and charge air cooler form an engine-mounted cooling unit that is protected against vibration. All of the necessary hoses and connecting elements are pre-assembled, which significantly reduces the installation and application work to be carried out by the customer.

Rating Used to assess the creditworthiness of a company. It gauges the extent to which the company will be able to repay the principal and interest on its outstanding liabilities at the agreed date.

REACH (Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals) European Union regulation concerning the registration, evaluation, authorization, and restriction of chemicals.

RoHS (Restriction of Hazardous Substances) Abbreviation for Directive 2011/65/EU on the restriction of the use of certain hazardous substances in electrical and electronic equipment, which governs the use and placement in the market of hazardous substances in electrical and electronic components.

SCR (selective catalytic reduction) system System used to convert nitrogen oxide emissions produced during combustion in diesel engines into the components nitrogen and water.

Supply chain management The coordination and optimization of value chains and supply chains. It encompasses various procurement departments, manufacturing, and distribution to customers.

Synthetic fuels See e-fuels.

Telematics Networking of various IT systems that enables information from different sources to be linked.

US EPA Tier 4 US exhaust emissions standard.

Value stream Entirety of all value-adding and non-value-adding business processes that are needed to manufacture and offer a product or service.

Volatility Extent of the fluctuation of exchange-traded securities and goods over time.

Waiver (request) Request made to business partners to waive a particular provision or condition despite this provision or condition being contractually agreed.

Walk-behind tractors Also known as a walking tractor, which is a single-axle tractor. These are self-powered and self-propelled and are used to power and pull farm implements such as trailers, cultivators, and plows. The operator usually walks behind this tractor.

Xchange Professionally reconditioned engines and parts that represent a quick, economic, and eco-friendly alternative to purchasing a new product. Xchange engines and parts have to meet the same quality standards as apply to the manufacturing of new ones.

Xetra (Exchange Electronic Trading) Name given to the electronic dealing system run by Deutsche Börse (also known as screen-based trading).

DEUTZ GROUP: MULTI-YEAR OVERVIEW

	Continuing operations 2016	Continuing operations 2017	Continuing operations 2018	Continuing operations 2019	**Continuing operations 2020**
New orders	1,261.4	1,556.5	1,952.6	1,654.3	1,322.5
Unit sales (units)	132,539	161,646	214,776	211,667	150,928
DEUTZ Compact Engines	123,179	151,671	195,259	164,677	102,054
DEUTZ Customized Solutions	9,360	8,740	9,259	26,048	18,980
Other	–	1,235	10,258	20,942	29,894
Revenue	1,260.2	1,479.1	1,778.8	1,840.8	1,295.6
DEUTZ Compact Engines	1,000.8	1,227.5	1,484.0	1,446.4	943.8
DEUTZ Customized Solutions	259.4	247.9	271.2	362.5	310.1
Other	–	3.7	26.8	35.5	44.4
Consolidation	–	–	–3.2	–3.6	–2.7
EBITDA	114.2	237.3	161.4	175.5	–0.2
EBITDA (before exceptional items)	114.2	133.2	161.4	166.2	31.7
EBIT	23.4	143.8	82.0	88.1	–106.6
EBIT (before exceptional items)	23.4	39.7	82.0	78.8	–74.7
EBIT margin (%)	1.9	9.7	4.6	4.8	–8.2
EBIT margin (before exceptional items, %)	1.9	2.7	4.6	4.3	–5.8
Net income	16.0	118.5	69.9	52.3	–107.6
Net income (before exceptional items)	16.0	33.0	69.9	44.2	–75.7
Earnings per share (€)	0.14	0.98	0.58	0.43	–0.89
Earnings per share (before exceptional items, €)	0.14	0.27	0.58	0.37	–0.63
Dividend per share (€)	0.07	0.15	0.15	0.15	–
Total assets	1,059.7	1,198.2	1,249.3	1,301.2	1,180.5
Non-current assets	483.7	519.3	506.2	619.5	613.6
Equity	491.1	584.3	619.1	652.4	535.2
Equity ratio (%)	46.3	48.8	49.6	50.1	45.3
Cash flow from operating activities	63.8	112.7	97.5	115.6	44.9
Free cash flow	4.7	82.5	14.5	–36.6	–35.8
Net financial position[1]	31.6	98.2	93.7	–15.2	–83.8
Working capital[2]	204.3	222.2	276.2	293.2	235.0
Working capital ratio (average, %)[3]	17.9	13.4	15.8	17.4	21.8
Capital expenditure (after deducting grants)[4]	52.9	54.7	59.1	86.5	91.7
Depreciation and amortization	90.8	93.5	79.4	87.4	106,4
Research and development (after deducting grants)	50.4	67.0	85.0	95.8	81.4
thereof capitalized	9.1	17.5	21.0	21.7	12.6
Employees (Dec. 31)[5]	3,665	4,154	4,631	4,906	4,586

[1] Cash and cash equivalents less current and non-current interest-bearing financial debt.
[2] Inventories plus trade receivables less trade payables.
[3] Average working capital at the last four quarterly reporting dates divided by revenue for the previous twelve months.
[4] Capital expenditure on property, plant and equipment (including right-of-use assets in connection with leases since 2019) and intangible assets, excluding capitalization of R&D.
[5] From 2019 onward, the number of employees is expressed in FTEs (full-time equivalents). The figures for 2018 have been restated accordingly.

DEUTZ GROUP: MULTI-YEAR OVERVIEW

	Continuing operations 2016	Continuing operations 2017	Continuing operations 2018	Continuing operations 2019	**Continuing operations 2020**
Revenue by region € million	**1,260.2**	**1,479.1**	**1,778.8**	**1,840.8**	**1,295.6**
Europe/Middle East/Africa	872.7	1,063.5	1,139.7[1]	1,141.9	829.2
Americas	239.6	268.1	365.3[1]	404.3	222.5
Asia-Pacific	147.9	147.5	273.8[1]	294.6	243.9
Revenue by application segment € million	**1,260.2**	**1,479.1**	**1,778.8**	**1,840.8**	**1,295.6**
Construction Equipment	350.0	437.4	545.5	535.5	378.5
Material Handling	189.0	265.6	373.1	398.9	172.5
Stationary Equipment	147.3	152.0	166.3	155.8	114.3
Agricultural Machinery	176.5	230.5	261.1	293.3	178.7
Service	287.3	309.2	329.9	352.4	348.3
Miscellaneous[2]	110.1	84.4	102.9	104.9	103.3
Key figures for DEUTZ shares					
Number of shares (Dec. 31)	120,861,783	120,861,783	120,861,783	120,861,783	120,861,783
Number of shares (average)	120,861,783	120,861,783	120,861,783	120,861,783	120,861,783
Share price (Dec. 31, €)	5.35	7.58	5.15	5.57	5.10
Share price high (€)	5.58	7.78	8.68	8.84	5.77
Share price low (€)	2.65	5.31	5.02	4.86	2.74
Market capitalization (€ million)	646.6	916.1	622.4	673.2	616.4
Earnings per share (€)	0.14	0.98	0.58	0.43	−0.89
thereof from continuing operations	0.14	0.98	0.58	0.43	−0.89
thereof from discontinued operations	0.00	0.00	0.00	0.00	0.00
Earnings per share (before exceptional items, €)	0.14	0.27	0.58	0.37	−0.63

[1] Adjusted due to a change in the regional allocation of the revenue of one big-ticket customer.
[2] From 2019 onward, the revenue from automotive business is included in the Miscellaneous application segment. Up to and including 2018, it was shown separately. The figure for 2018 has been restated accordingly.

FINANCIAL CALENDAR

2021	
April 29	Annual General Meeting (virtual)
May 6	Quarterly statement for the first quarter of 2021 Conference call with analysts and investors
August 12	Interim report for the first half of 2021 Conference call with analysts and investors
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

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