DEUTZ AG

Interim report for the first half of 2020

DEUTZ AT A GLANCE

DEUTZ is one of the world's leading manufacturers of innovative drive systems. The Company was founded in 1864 and has approximately 4,670 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. The engine specialist also offers 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 79 percent of consolidated revenue in 2019, comprises liquid-cooled engines with capacities of up to 8 liters. 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 DCS segment's share of revenue in 2019 was around 20 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.

DEUTZ Group: overview

€ million

	4–6/2020	4–6/2019	**1–6/2020**	1–6/2019
New orders	266.9	438.8	623.6	953.3
Unit sales (units)	33,790	53,856	73,859	101,591
Revenue	280.2	477.0	620.0	929.8
EBITDA	–11.8	50.2	–1.9	95.1
EBITDA before exceptional items	–11.8	40.9	–1.9	85.8
EBIT	–38.1	31.4	–49.9	56.5
EBIT before exceptional items	–38.1	22.1	–49.9	47.2
EBIT margin (%)	–13.6	6.6	–8.0	6.1
EBIT margin before exceptional items (%)	–13.6	4.6	–8.0	5.1
Net income	–42.3	24.4	–52.3	45.3
Net income (before exceptional items)	–42.3	16.6	–52.3	37.5
Earnings per share (€)	–0.35	0.20	–0.43	0.37
Earnings per share (before exceptional items, €)	–0.35	0.14	–0.43	0.31
Total assets	1,229.9	1,295.9	1,229.9	1,295.9
Non-current assets	619.1	560.6	619.1	560.6
Equity	596.4	643.7	596.4	643.7
Equity ratio (%)	48.5	49.7	48.5	49.7
Cash flow from operating activities	–31.8	3.7	–43.7	0.9
Free cash flow[1]	–50.2	–16.0	–85.7	–46.2
Net financial position[2]	–117.8	–17.8	–117.8	–17.8
Working capital[3]	308.9	336.7	308.9	336.7
Working capital ratio[4] (average, %)	20.2	16.8	20.2	16.8
Capital expenditure[5] (after deducting grants)	14.4	23.4	38.9	42.2
Depreciation and amortization	26.3	18.8	48.0	38.6
Research and development expenditure (after deducting grants)	21.4	21.1	46.2	44.7
thereof capitalized	4.6	4.2	9.1	9.6
Employees (number as at Jun. 30)	4,673	4,863	4,673	4,863

[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.
[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.

DEUTZ Group: segments

€ million

	4–6/2020	4–6/2019	**1–6/2020**	1–6/2019
New orders				
DEUTZ Compact Engines	184.6	346.9	439.9	756.2
DEUTZ Customized Solutions	72.9	83.6	165.4	180.5
Other	9.8	9.4	19.5	18.6
Consolidation	–0.4	–1.1	–1.2	–2.0
Total	**266.9**	**438.8**	**623.6**	**953.3**
Unit sales (units)				
DEUTZ Compact Engines	21,180	42,954	48,173	81,924
DEUTZ Customized Solutions	4,889	6,415	9,442	13,509
Other	7,721	4,487	16,244	6,158
Consolidation	0	0	0	0
Total	**33,790**	**53,856**	**73,859**	**101,591**
Revenue				
DEUTZ Compact Engines	197.8	373.6	453.7	729.8
DEUTZ Customized Solutions	70.2	93.8	145.0	185.0
Other	12.6	10.7	22.5	17.0
Consolidation	–0.4	–1.1	–1.2	–2.0
Total	**280.2**	**477.0**	**620.0**	**929.8**
EBIT before exceptional items				
DEUTZ Compact Engines	–33.1	16.4	–49.8	34.9
DEUTZ Customized Solutions	–1.7	10.8	6.6	23.6
Other	–3.3	–5.1	–6.7	–11.3
Consolidation	0.0	0.0	0.0	0.0
Total	**–38.1**	**22.1**	**–49.9**	**47.2**

INTERIM REPORT OF THE DEUTZ GROUP FOR THE FIRST HALF OF 2020

OVERVIEW

- Sales figures decline sharply overall due to the impact of the coronavirus pandemic on the global economy and the Company's business activities
  - New orders fall by 34.6 percent to €623.6 million, but the service business continues to hold steady
  - Consolidated unit sales drop by 27.3 percent to 73,859 engines, whereas unit sales of Torqeedo's electric drives increase rapidly
  - Consolidated revenue goes down by 33.3 percent to €620.0 million
- China strategy continues to be implemented successfully and the revenue target for 2022 is raised from €500 million to around €800 million[1)]
- Operating profit decreases significantly to a loss of €49.9 million owing to the fall in revenue and related diseconomies of scale
- Measures under the global Transform for Growth efficiency program have been defined and initiated; implementation of the measures is predicted to generate annual cost savings of around €100 million from the end of 2022 onward
- Group guidance for 2020 remains under review due to the ongoing uncertainty about how the coronavirus crisis will unfold
- Medium-term targets have been confirmed despite the outbreak of the coronavirus pandemic

[1)] The revenue target of approximately €800 million includes the revenue generated by the joint venture with SANY. Under the equity method, this revenue is not recognized in the consolidated financial statements.

MACROECONOMIC AND INDUSTRY-SPECIFIC ENVIRONMENT

ECONOMIC ENVIRONMENT

The coronavirus pandemic and the resulting crisis plunged the global economy into a deep recession in the first half of 2020. The Kiel Institute for the World Economy (IfW) published its economic report in June 2020 in which it estimated that worldwide economic activity would likely decline by almost 10 percent in the period January to June 2020.[1)]

According to the latest data from the World Trade Organization (WTO), global trade contracted by roughly 3 percent in the first quarter of 2020 compared with the first quarter of 2019. For the second quarter, the WTO expects an even sharper decrease of up to 18.5 percent.[2)]

The action taken around the world during the coronavirus pandemic, such as travel restrictions and lockdowns, were at their height between mid-March and mid-May, thereby disrupting transport, tourism, consumer spending and, as a result, macroeconomic activity. The gradual easing of measures in European countries from mid-May onward did lead to a piecemeal increase in economic activity, but almost no country saw a return to the pre-crisis level.

INDUSTRY-SPECIFIC ENVIRONMENT

The market data currently available to us shows that the majority of the individual markets relevant to DEUTZ declined in the first half of 2020.

According to the latest data from Germany's Mechanical Engineering Industry Association (VDMA), the global market for construction equipment had been at a record high level in the previous two years. This sustained upturn was already showing signs of ending in late 2019, and this trend accelerated significantly as a result of the coronavirus pandemic.[3)]

Unit sales of construction equipment in North America and Europe are likely to have fallen significantly in the first half of 2020 compared with the same period of 2019.[3)] In the second quarter, however, the Chinese market was able to make up for much of the sales lost in the first quarter and returned to the high level of unit sales that it had seen before the shutdown in response to the coronavirus outbreak.[4)]

Demand for material handling applications followed the trend in the construction industry. Unit sales, for example of forklift trucks in North America and Europe, showed a sustained downturn.[5)] In China, however, a very positive trend is discernible – despite the sharp falls in the first quarter – and unit sales in the reporting period are likely to have been at more or less the same level as in the first half of 2019.[4)]

The coronavirus crisis had a negative impact on the market for agricultural machinery in Europe, North America, and China alike.[6)]

1) https://www.ifw-kiel.de/publications/kiel-institute-economic-outlook/2020/historic-contraction-of-the-world-economy-14670/
2) https://www.wto.org/english/news_e/pres20_e/pr858_e.htm
3) VDMA, CE Snapshot, June 2020.
4) CCMA, CE Sales Data, May 2020.
5) FEM, World Industrial Truck Statistics (WITS), May 2020.
6) VDMA/Agrievolution, Business Barometer, May 2020.

IMPACT OF THE CORONAVIRUS CRISIS ON THE BUSINESS ACTIVITIES OF THE DEUTZ GROUP

The DEUTZ engines business was already feeling the impact of the coronavirus pandemic in the first quarter of 2020 and, as the year progressed, all areas of the Company's business were noticeably affected, as expected, in terms of both activities and performance.

At the start of the second quarter, large parts of production in Europe (Cologne, Ulm, Herschbach, Zafra) closed down, initially until mid-April. 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.[1] While the DEUTZ site in Zafra, Spain, resumed production on April 14, operations in the German plants were restarted gradually, beginning on April 20. However, production volumes were and remain largely dependent on customer demand, which is still falling sharply as a result of the macroeconomic effects of the coronavirus crisis in an already challenging market environment.

In order to take account of the lower capacity utilization, it was decided to stop all hiring and, among other measures, discontinue the use of all temporary workers in the production and assembly operations and only continue fixed-term contracts in the departments where there was evidence of continued need (please see 'Employees' on page 11). At the end of March 2020, DEUTZ applied for Company-wide short-time working at all German sites.[2] This was approved for Cologne, Herschbach, and Ulm until December 2020. Decisions are made monthly on the precise scope of the short-time working in the individual departments, based on the order situation at the time.

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 order to cope with the 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 total procurement volumes 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 but 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.

In view of the macroeconomic situation and the substantial drag on earnings caused by the coronavirus crisis, DEUTZ has also reviewed its development projects and capital expenditure on research and development. This resulted in a reprioritization that in turn led to the postponement of individual projects, for example in preliminary development. The current R&D budget was thus reduced by a figure in the mid-single-digit millions of euros. Projects relating to the EU V emissions standard were not affected by the changed priorities, so there was no impact on strategic projects or volume production projects.

In order to further strengthen the Company's liquidity and secure the necessary financial flexibility to enable the implementation of growth projects that have already begun, DEUTZ also increased its credit lines 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. At the same time, the Board of Management and Supervisory Board proposed to the shareholders that the dividend for 2019 be suspended.[3] This proposal was accepted by a majority of votes at the virtual Annual General Meeting on June 25, 2020.

[1] See the ad hoc disclosure dated March 25, 2020.
[2] See the ad hoc disclosure dated March 25, 2020.
[3] See the ad hoc disclosure dated May 4, 2020.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

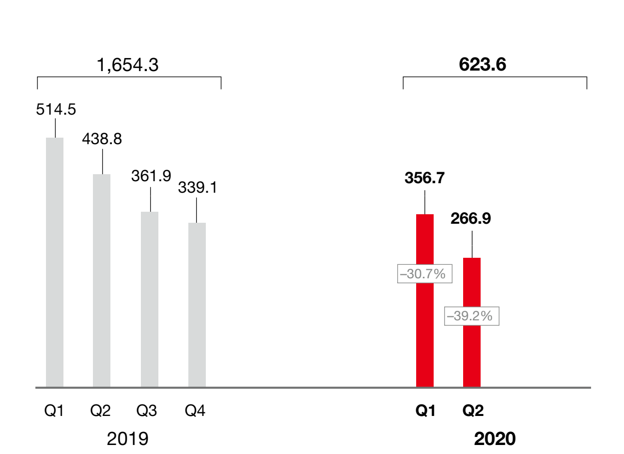
The expectation even at the start of this year was that DEUTZ's engine business would decline overall in 2020. The main reason for this was the downturn in key customer industries against the backdrop of the weakening economy. This, along with effects relating to the advance production of engines before new emissions standards came into force, had already led to a low level of orders on hand at the end of 2019. The forecasts for the markets relevant to DEUTZ indicated that this situation would continue. Furthermore, it was assumed that business performance would be hit by customers selling the inventories of engines they had built up before new emissions standards came into force.

The coronavirus pandemic and its global impact on all economic activity put a further heavy burden on DEUTZ's engine business in what was already a challenging market environment. In the reporting period, this led to an overall sharp decline in the sales figures presented below and thus in the Company's earnings performance.

NEW ORDERS

DEUTZ Group: New orders by quarter

€ million



In the period under review, the new orders received by DEUTZ fell by 34.6 percent year on year to €623.6 million. This was due not only to the sharp drop in new orders triggered by the coronavirus crisis but also to the high level of new orders in the prior-year period as a result of customers building up their inventories of engines before new emissions standards came into force. Customers then sold these engines, putting a further strain on the business.

The Construction Equipment, Material Handling, Agricultural Machinery, and Stationary Equipment application segments recorded double-digit percentage reductions in new orders. By contrast, the Miscellaneous application segment and the service business continued to notch up year-on-year increases, of 16.4 percent and 0.8 percent respectively. The sharp rise in the Miscellaneous application segment was primarily due to the growth in new orders for rail vehicle drive systems.

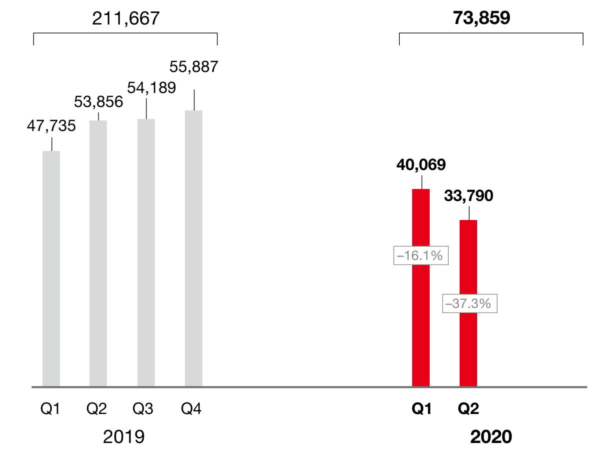
New orders in the second quarter of 2020 decreased by 39.2 percent year on year to €266.9 million.

As at June 30, 2020, orders on hand stood at €253.5 million (June 30, 2019: €462.6 million). Within this total, orders on hand in the service business were up significantly compared with the end of the prior-year period.

UNIT SALES

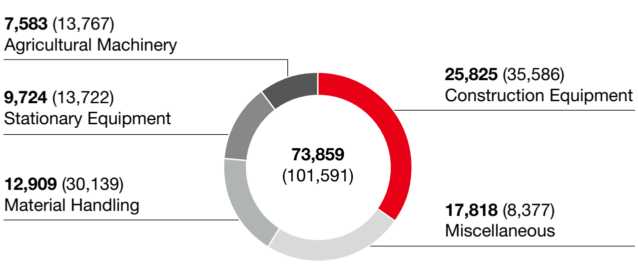
DEUTZ Group: Consolidated unit sales by quarter

units



DEUTZ Compact Engines: Revenue by application segment

€ million (2019 figures)



The DEUTZ Group sold a total of 73,859 engines in the reporting period, which was 27.3 percent fewer than in the first half of 2019. Miscellaneous was the only application segment with an increase in unit sales, registering a substantial rise of 112.7 percent that was largely attributable to the introduction of small outboard motors known as trolling motors. The ramp-up of these motors enabled DEUTZ subsidiary Torqeedo to more than double its sales of boat motors to a total of 16,244, which equates to a year-on-year rise of 163.8 percent.

In the EMEA region (Europe, Middle East, and Africa), DEUTZ's biggest sales market, unit sales went down by 30.5 percent compared with the prior-year period to 37,763 engines. In the Americas region, unit sales fell by 47.4 percent to 14,726 engines. By contrast, unit sales in the Asia-Pacific region grew by 10.8 percent owing to the aforementioned ramp-up at Torqeedo.

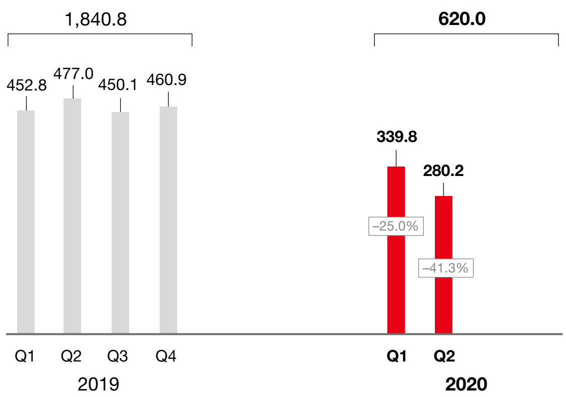
In the second quarter of 2020, DEUTZ sold a total of 33,790 engines, including 7,721 Torqeedo drives. The equivalent figures for unit sales in the prior-year period had stood at 53,856 engines and 4,487 electric boat drives.

RESULTS OF OPERATIONS

REVENUE

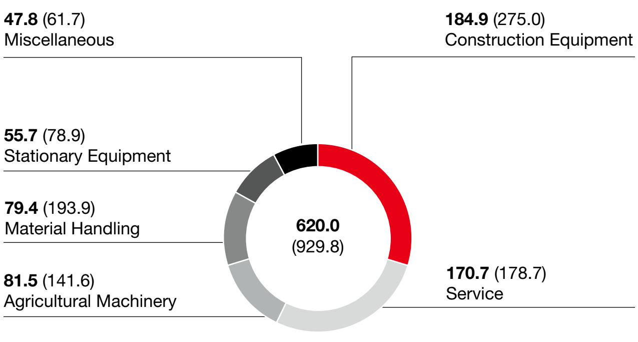
DEUTZ Group: Revenue by quarter

€ million



DEUTZ Group: Revenue by application segment

€ million (2019 figures)



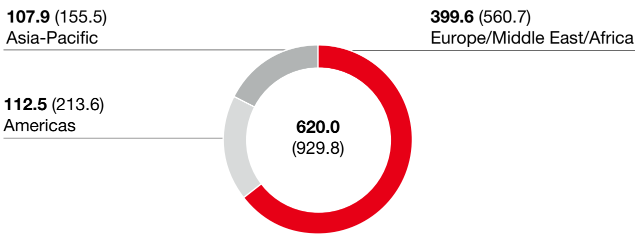
The DEUTZ Group's revenue fell by 33.3 percent compared with the first six months of 2019 to €620.0 million. The disproportionately strong decrease in revenue, relative to the decrease in unit sales, was the result of negative product mix effects.

From both a regional and an application segment perspective, revenue declined across the board in the reporting period. In the EMEA region, only the Middle East recorded a rise in revenue. This was attributable to new dealers in the service business.

Revenue totaled €280.2 million in the second quarter of 2020, which was down by 41.3 percent compared with the corresponding period of 2019.

DEUTZ Group: Revenue by region

€ million (2019 figures)



EARNINGS

DEUTZ Group: overview of results of operations

€ million

	1–6/2020	1–6/2019	Change (%)
Revenue	**620.0**	**929.8**	**–33.3**
Cost of sales	–534.8	–757.0	–29.4
Research and development costs	–49.6	–44.0	12.7
Selling and administrative expenses	–75.6	–78.5	–3.7
Other operating income	6.2	18.2	–65.9
Other operating expenses	–15.8	–12.2	29.5
Write-downs of financial assets	–1.4	–0.2	>100
Profit/loss on equity-accounted investments	1.1	0.4	>100
EBIT	**–49.9**	**56.5**	**<–100**
thereof exceptional items	0.0	9.3	–100.0
Operating profit/loss (EBIT before exceptional items)	**–49.9**	**47.2**	**<–100**
Interest income	0.3	0.4	–25.0
Interest expense	–1.8	–1.6	12.5
Other financial income/ finance costs	–0.2	0.0	–
Financial income, net	**–1.7**	**–1.2**	**–41.7**
Income taxes	–0.7	–10.0	–93.0
Net income	**–52.3**	**45.3**	**<–100**

The impact of the coronavirus pandemic on the business activities of the DEUTZ Group and its customers meant that DEUTZ reported an operating loss (EBIT before exceptional items) of €49.9 million in the first half of 2020. This significant decline compared with the prior-year period was attributable, in particular, to the fall in revenue and the resulting diseconomies of scale. There was also a heavy drag on operating profit from payments of around €10 million made under continuation agreements with suppliers that are going through insolvency proceedings and demand-related impairment losses of around €5 million recognized on capitalized development projects. The decline was mitigated by cost-cutting measures and the use of short-time working. Furthermore, 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, which also had a positive impact on operating profit. The EBIT margin before exceptional items stood at minus 8.0 percent in the reporting period (H1 2019: 5.1 percent).

The decline in operating profit (EBIT before exceptional items) also caused net income to deteriorate to a net loss of €52.3 million. Income taxes therefore went down by €9.3 million. This resulted in earnings per share before exceptional items of minus €0.43 (H1 2019: €0.31).

BUSINESS PERFORMANCE IN THE SEGMENTS

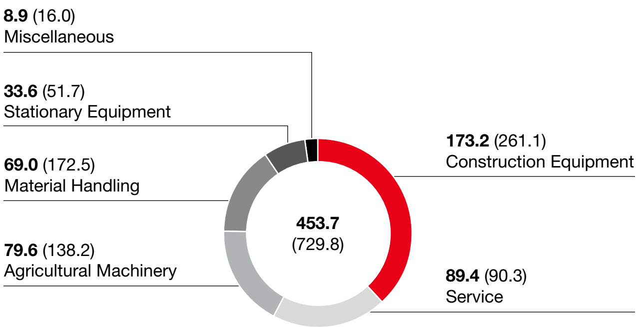
BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

DEUTZ Compact Engines

	1–6/2020	1–6/2019	Change (%)
New orders (€ million)	439.9	756.2	–41.8
Unit sales (units)	48,173	81,924	–41.2
Revenue (€ million)	453.7	729.8	–37.8
EBIT (€ million)	–49.8	34.9	<–100
EBIT margin (%)	–11.0	4.8	–

DEUTZ Compact Engines: Revenue by application segment

€ million (2019 figures)



In the first half of 2020, the DCE segment's sales figures declined overall compared with the prior-year period. New orders came to €439.9 million, which was 41.8 percent lower than in the first six months of 2019. The breakdown by application segment reveals that only the service business recorded a rise in new orders, with an increase of 6.0 percent to €89.0 million that was primarily attributable to the expansion of on-site customer service business. The segment's unit sales declined by 41.2 percent to 48,173 engines and revenue contracted by 37.8 percent to €453.7 million, with decreases in all regions and application segments.

In the first six months of this year, the operating profit of the DEUTZ Compact Engines segment deteriorated by a substantial €84.7 million to a loss due to the collapse in demand triggered by the coronavirus pandemic. The segment's operating profit was weighed down by a fall in revenue of almost 38 percent, payments to suppliers going through insolvency proceedings to enable them to continue supplying DEUTZ, and impairment losses on a development project. These impairment losses were recognized due to the expected decrease in demand for the affected engine series.

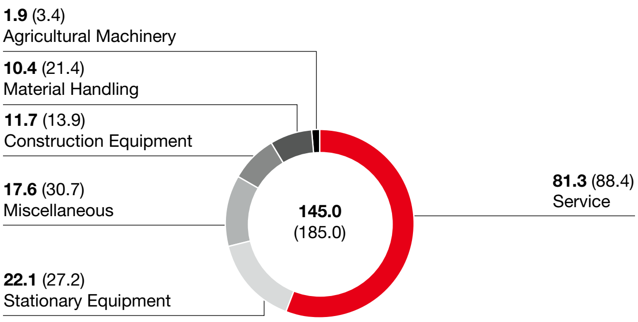
BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMIZED SOLUTIONS (DCS) SEGMENT

DEUTZ Customized Solutions

	1–6/2020	1–6/2019	Change (%)
New orders (€ million)	165.4	180.5	–8.4
Unit sales (units)	9,442	13,509	–30.1
Revenue (€ million)	145.0	185.0	–21.6
EBIT (€ million)	6.6	23.6	–72.0
EBIT margin (%)	4.6	12.8	–

DEUTZ Customized Solutions: Revenue by application segment

€ million (2019 figures)



The DCS segment's sales figures also deteriorated in the period under review. New orders fell by 8.4 percent year on year to €165.4 million. Miscellaneous was the only application segment with an increase in new orders, registering a substantial rise of 52.6 percent to €29.6 million that was largely attributable to new orders for rail vehicle drive systems. The segment's total unit sales dropped by 30.1 percent to 9,442 engines. Only the Construction Equipment application segment recorded an increase, with its unit sales advancing by 13.7 percent to 1,755 engines thanks to the business involving drives for mining equipment. Revenue decreased across all regions and application segments, falling by 21.6 percent year on year to €145.0 million.

The operating profit for the segment deteriorated markedly compared with the first half of 2019. This was mainly due to the sharp decline caused by the global coronavirus pandemic in the reporting period. The segment's operating profit was also weighed down by impairment losses on two development projects that were recognized due to the expected decrease in demand for the affected engine series.

OTHER

Other

	1–6/2020	1–6/2019	Change (%)
New orders (€ million)	19.5	18.6	4.8
Unit sales (units)	16,244	6,158	>100
Revenue (€ million)	22.5	17.0	32.4
EBIT (€ million)	–6.7	–11.3	40.7
EBIT margin (%)	–29.8	–66.5	–

The Other segment includes not only Torqeedo's business with electric motors for boats but also Futavis GmbH, which was acquired in October 2019. Overall, the segment's business performance was positive in the reporting period. Despite the coronavirus crisis, new orders rose by 4.8 percent year on year to €19.5 million. In the first half of 2020, unit sales more than doubled to a total of 16,244 electric motors. This was primarily thanks to the ramp-up of trolling engines and led to a 32.4 percent jump in revenue to €22.5 million. All regions contributed to this growth.

In the period under review, the Other segment's operating loss improved by €4.6 million. This was mainly attributable to 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

DEUTZ Group: overview of financial position

€ million

	1–6/2020	1–6/2019	Change (%)
Cash flow from operating activities	–43.7	0.9	<–100
Cash flow from investing activities	–39.6	–45.6	13.2
Cash flow from financing activities	58.3	–31.3	>100
Change in cash and cash equivalents	–25.0	–76.0	67.1
Free cash flow[1] from continuing operations	–85.7	–46.2	–85.5
Cash and cash equivalents at Jun. 30/Dec. 31	30.3	55.3	–45.2
Current and non-current interest-bearing financial debt at Jun. 30/Dec. 31	148.1	70.5	>100
Net financial position[2] at Jun. 30/Dec. 31	–117.8	–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 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. The measures taken at an early stage to safeguard liquidity, such as careful monitoring of working capital, meant that the relatively small €6.6 million rise in working capital with an impact on cash flow (H1 2019: rise of €55.5 million) was able to largely offset this significant decline in earnings. Net cash used for investing activities was below the level reported in the first half of 2019 because of the decrease in payments related to capital spending on property, plant and equipment and intangible assets. The main factors affecting cash flow from financing activities were the drawdown of short-term lines of credit and the taking out of medium-term loans of €23 million in connection with the coronavirus pandemic. 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 €0.6 million and €8.4 million respectively (H1 2019: €0.4 million and €6.0 million respectively). As a result of the decrease in cash flow from operating activities, free cash flow amounted to minus €85.7 million and was therefore down by €39.5 million compared with the first half of 2019.

In view of the financial impact of the coronavirus crisis, the Board of Management and Supervisory Board proposed to the Annual General Meeting on June 25, 2020 that the dividend payment be suspended in order to further protect the Group's liquidity. This proposal was accepted by a majority of votes. The dividend paid in 2019 had amounted to €18.1 million.

The changes in cash flow described above resulted in a considerable reduction in cash and cash equivalents. The net financial position also decreased. This was again due not only to the deterioration in cash flow but also to the rise in lease liabilities.

NET ASSETS

DEUTZ Group: overview of net assets

€ million

	Jun. 30, 2020	Dec. 31, 2019	Change (%)
Non-current assets	689.7	688.1	0.2
Current assets	540.2	613.1	–11.9
Total assets	**1,229.9**	**1,301.2**	**–5.5**
Equity	596.4	652.4	–8.6
Non-current liabilities	241.7	225.2	7.3
Current liabilities	391.8	423.6	–7.5
Total equity and liabilities	**1,229.9**	**1,301.2**	**–5.5**
Working capital[1] (€ million)	308.9	293.2	5.4
Working capital ratio[2] (Jun. 30, %)	20.2	15.9	–
Working capital ratio[3] (average, %)	20.2	17.4	–
Equity ratio[4] (%)	48.5	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.

As at June 30, 2020, non-current assets included right-of-use assets of €49.6 million in connection with leases (31 December 2019: €41.4 million). The right-of-use assets mainly constituted leased property, the increase in which was predominantly attributable to the extension of leases. The contraction of current assets was attributable to the demand-related decrease in trade receivables, the lower level of cash and cash equivalents 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.

The main factor affecting the change in working capital was the coronavirus pandemic. Both trade receivables and trade payables fell sharply due to the substantially lower level of demand and the resulting adjustment to production and procurement activities. By contrast, inventories went up, partly as a result of the deliberate raising of stock levels of bought-in parts in order to maintain DEUTZ's ability to produce and deliver its products. However, measures taken at an early stage and careful management of working capital meant that the €15.7 million increase in working capital in the reporting period was significantly lower than in the prior-year period (H1 2019: increase of €60.5 million).

Non-current and current financial debt included lease liabilities of €50.1 million as at June 30, 2020 (December 31, 2019: €41.9 million). As was the case for the growth of right-of-use assets, the increase in lease liabilities was mainly due 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.

RESEARCH AND DEVELOPMENT

Research and development

	1–6/2020	1–6/2019	Change (%)
R&D expenditure (after deducting grants, € million)	46.2	44.7	3.4
thereof DCE (€ million)	36.9	36.6	0.8
thereof DCS (€ million)	5.6	5.3	5.7
thereof Other/Torqeedo (€ million)	3.7	2.8	32.1
R&D ratio (as a percentage of revenue)	7.5	4.8	–

The DEUTZ Group's expenditure on research and development (after reimbursements) went up by 3.4 percent year on year to €46.2 million. The sharp fall in revenue caused a disproportionately strong increase in the R&D ratio from 4.8 percent in the prior-year period to 7.5 percent in the first half of 2020.

EMPLOYEES

Employees

Number

	1–6/2020	1–6/2019	Change (%)
Cologne	2,623	2,748	–4.5
Ulm	486	541	–10.2
Other	330	311	6.1
In Germany	**3,439**	**3,600**	**–4.5**
Outside Germany	**1,234**	**1,263**	**–2.3**
Total	**4,673**	**4,863**	**–3.9**

As at June 30, 2020, the DEUTZ Group employed 4,673 people worldwide.[1] This decrease of 233 people compared with December 31, 2019 was largely due to the reduction of the production program. The number of temporary workers was reduced from 227 at the end of 2019 to 78 as at the balance sheet date, primarily as a result of the effects of the coronavirus crisis on the Company's business activities (please see 'Impact of the coronavirus crisis on the business activities of the DEUTZ Group' on page 5).

OPPORTUNITY AND RISK REPORT

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

The structure of the DEUTZ Group's risk management system is described in detail on page 69 onward of the 2019 annual report.

The further impact on the global economy and the timeline of the coronavirus crisis going forward is very difficult to predict. Consequently, it is currently not possible to provide a valid assessment or update on the main individual risks and opportunities relating to the Company's financial position and financial performance that are set out in the 2019 annual report.

[1] Excluding temporary workers.

OUTLOOK

ECONOMIC OUTLOOK

The International Monetary Fund (IMF) predicts that the global economy will contract by 4.9 percent in 2020. In particular, it has lowered its forecast for consumer spending in most economies. Moreover, companies are likely to limit their capital expenditure in view of the ongoing uncertainty about how the coronavirus crisis will unfold and what its economic impact will be.[1]

GDP growth forecast for 2020 and GDP growth in 2019[1)]

%

Region	**2020**	2019
Global	–4.9	2.9
Industrialized countries	–8.0	1.7
Eurozone	–10.2	1.3
Germany	–7.8	0.6
Spain	–12.8	2.0
Italy	–12.8	0.3
USA	–8.0	2.3
Emerging markets	–3.0	3.7
China	1.0	6.1
India	–4.5	4.2

1) https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020

SECTORAL OUTLOOK

Compared with the market assessment from March of this year (see the 2019 annual report, page 75), the forecasts for the diesel engine customer industries relevant to DEUTZ have been largely lowered for 2020 as a result of the coronavirus pandemic and its impact on the global economy. However, as it is impossible to gauge how the coronavirus crisis will unfold, all forecasts must be viewed as very uncertain.

Demand for construction equipment is expected to fall sharply in Europe and North America, whereas moderate growth is anticipated in China due to large-scale infrastructure projects and other factors.

Demand for material handling equipment is also likely to result in falling unit sales in Europe and North America, although the decrease will be less pronounced than that of construction equipment. Unit sales in China will probably rise slightly in 2020, mainly due to the rapid growth of the logistics sector.

Another key reason for the fall in unit sales, especially of small construction equipment and material handling applications, is that rental firms have reduced capital expenditure on new equipment for their fleets, in some cases by more than 50 percent.

The agricultural equipment sector is forecast to decline in all regions, partly because of the generally low level of agricultural commodity prices. Moreover, structural changes in the tractor market are likely to have an adverse impact in China.

DEUTZ customer industries: forecast change in size of market in 2020[1)]

YoY change in unit sales (%)

	Europe	North America	China
Construction equipment	–20 to –10%	–20 to –10%	0 to +10%
Material handling	–15 to –5%	–15 to –5%	0 to +5%
Agricultural machinery	–15 to –5%	–15 to –5%	–15 to –5%

1) Source: Power Systems Research, OELink Database, July 2020.

BUSINESS OUTLOOK FOR 2020

In view of the impact of the coronavirus pandemic on the global economy and the resulting effect on the Company's business activities and business performance, DEUTZ decided at the end of March 2020 to revoke the guidance published in the 2019 group management report.[2] The progression and timeline of the coronavirus crisis going forward are very difficult to predict, as is its economic impact. Consequently, this decision continues to apply and it is therefore still not possible to provide updated guidance for 2020 at the present time.

Fundamentally, we assume that the remainder of the current year, particularly the third quarter, will continue to be heavily affected by the impact of the coronavirus crisis, although to a lesser extent than the second quarter.

We now anticipate that the final installment of the purchase price for the Cologne-Deutz site, which had been announced as a positive exceptional item, will now be paid in 2021 rather than this year. It is important to note that the amount and the date of this payment depend on when the development plan for the site is formally approved and so cannot be precisely determined yet.

1) https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020

2) See the ad hoc disclosure dated March 25, 2020.

OUTLOOK FOR 2021/2022

Even taking account of the currently difficult situation, the Company reaffirms its current outlook for 2022, when it expects to generate revenue in excess of €2.0 billion and an EBIT margin before exceptional items in the range of 7 percent to 8 percent.

Growth is likely to be driven mainly by the continued internationalization and rapid expansion of the service business, but also by the expansion of the core business and the further development of the product portfolio. As a result, DEUTZ is also adhering to its revenue target for the service business, which it has brought forward to 2021 and envisages revenue of over €400 million (see the 2019 annual report, page 36 onward).

In view of the restructuring of its business in China, DEUTZ recently raised its original revenue target for 2022 from around €500 million to €800 million.[1)]

TRANSFORM FOR GROWTH EFFICIENCY PROGRAM

At the start of the year, DEUTZ launched a Company-wide efficiency program, Transform for Growth, in order to further shore up its earnings performance in challenging conditions and maintain its long-term competitiveness.

An extensive and detailed action plan was drawn up in the second quarter. The main areas of action are optimization of the global production network, automation and digitalization of operational and administrative processes, groupwide streamlining of the organizational structure, and reduction of complexity.

By taking these measures, DEUTZ intends to generate annual cost savings of around €100 million. The full effect is expected to be achieved from 2022 onward. As well as adjusting operating costs, a large part of the savings are to be achieved by reducing staff costs. This will involve substantial job cuts across the Group.

[1)] The revenue target of approximately €800 million includes the revenue generated by the joint venture with SANY. Under the equity method, this revenue is not recognized in the consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

INCOME STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	**4–6/2020**	4–6/2019	**1–6/2020**	1–6/2019
Revenue	1	**280.2**	**477.0**	**620.0**	**929.8**
Cost of sales		–246.4	–391.7	–534.8	–757.0
Research and development costs		–25.5	–21.3	–49.6	–44.0
Selling expenses		–23.8	–25.9	–51.3	–51.8
General and administrative expenses		–12.8	–14.0	–24.3	–26.7
Other operating income		1.1	11.4	6.2	18.2
Other operating expenses		–10.2	–3.9	–15.8	–12.2
Write-downs of financial assets		–1.4	–0.6	–1.4	–0.2
Profit/loss on equity-accounted investments		0.7	0.4	1.1	0.4
EBIT		**–38.1**	**31.4**	**–49.9**	**56.5**
thereof exceptional items		0.0	9.3	0.0	9.3
thereof operating profit/loss (EBIT before exceptional items)		–38.1	22.1	–49.9	47.2
Interest income		0.1	0.2	0.3	0.4
Interest expense		–0.9	–0.8	–1.8	–1.6
Other financial income/finance costs		–0.2	0.0	–0.2	0.0
Financial income, net		**–1.0**	**–0.6**	**–1.7**	**–1.2**
Net income before income taxes		**–39.1**	**30.8**	**–51.6**	**55.3**
Income taxes	2	–3.2	–6.4	–0.7	–10.0
Net income		**–42.3**	**24.4**	**–52.3**	**45.3**
thereof attributable to shareholders of DEUTZ AG		–42.3	24.4	–52.3	45.3
thereof attributable to non-controlling interests		0.0	0.0	0.0	0.0
Earnings per share (basic/diluted, €)		**–0.35**	**0.20**	**–0.43**	**0.37**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million

	Note	**4–6/2020**	4–6/2019	**1–6/2020**	1–6/2019
Net income		**–42.3**	**24.4**	**–52.3**	**45.3**
Amounts that will not be reclassified to the income statement in the future		**–3.0**	**–3.6**	**–3.0**	**–6.9**
Remeasurements of defined benefit plans		–3.0	–3.6	–3.0	–6.9
Amounts that will be reclassified to the income statement in the future if specific conditions are met		**–0.4**	**0.1**	**–1.4**	**4.3**
Currency translation differences		–1.6	–0.7	–1.6	3.7
thereof profit/loss on equity-accounted investments		–1.3	0.0	–1.2	2.9
Effective portion of change in fair value from cash flow hedges		1.1	0.8	0.2	0.3
Fair value of financial instruments		0.1	0.0	0.0	0.3
Other comprehensive income, net of tax	3	**–3.4**	**–3.5**	**–4.4**	**–2.6**
Comprehensive income		**–45.7**	**20.9**	**–56.7**	**42.7**
thereof attributable to shareholders of DEUTZ AG		–45.7	20.9	–56.7	42.7
thereof attributable to non-controlling interests		0.0	0.0	0.0	0.0

BALANCE SHEET FOR THE DEUTZ GROUP

€ million

Assets	Note	**Jun. 30, 2020**	Dec. 31, 2019
Property, plant and equipment	4	353.1	347.2
Intangible assets	4	210.2	216.2
Equity-accounted investments		51.0	51.1
Other financial assets		4.8	5.0
Non-current assets		**619.1**	**619.5**
Deferred tax assets		70.6	68.6
Non-current assets		**689.7**	**688.1**
Inventories		360.4	321.7
Trade receivables		101.9	152.1
Other receivables and assets		47.6	84.0
Cash and cash equivalents		30.3	55.3
Current assets		**540.2**	**613.1**
Total assets		**1,229.9**	**1,301.2**

Equity and liabilities	Note	**Jun. 30, 2020**	Dec. 31, 2019
Issued capital		**309.0**	**309.0**
Additional paid-in capital		28.8	28.8
Other reserves		–1.3	0.1
Retained earnings and accumulated income		259.7	314.3
Equity attributable to shareholders of DEUTZ AG		**596.2**	**652.2**
Non-controlling interests		0.2	0.2
Equity		**596.4**	**652.4**
Provisions for pensions and other post-retirement benefits		149.7	151.2
Deferred tax liabilities		0.7	0.8
Other provisions	7	29.7	33.4
Financial debt	6	56.3	34.1
Other liabilities		5.3	5.7
Non-current liabilities		**241.7**	**225.2**
Provisions for pensions and other post-retirement benefits		12.3	12.4
Current income tax liabilities		1.1	1.3
Other provisions	7	65.6	66.6
Financial debt	6	91.8	36.4
Trade payables		153.4	180.6
Other liabilities		67.6	126.3
Current liabilities		**391.8**	**423.6**
Total equity and liabilities		**1,229.9**	**1,301.2**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

€ million

	Issued capital	Additional paid-in capital	Retained earnings and accumulated income	Fair value reserve[1),2)]	Currency translation adjustment[1)]	Equity attributable to share-holders of DEUTZ AG	Non-controlling interests	Total
Balance at Dec. 31, 2018	**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			45.3			45.3	0.0	45.3
Other comprehensive income			–6.9	0.6	3.7	–2.6	0.0	–2.6
Comprehensive income			38.4	0.6	3.7	42.7	0.0	42.7
Balance at Jun. 30, 2019	**309.0**	**28.8**	**306.1**	**–0.4**	**0.0**	**643.5**	**0.2**	**643.7**
Balance at Dec. 31, 2019	**309.0**	**28.8**	**314.3**	**–0.4**	**0.5**	**652.2**	**0.2**	**652.4**
Net income			–52.3			–52.3	0.0	–52.3
Other comprehensive income			–3.0	0.2	–1.6	–4.4	0.0	–4.4
Comprehensive income			–55.3	0.2	–1.6	–56.7	0.0	–56.7
Changes to basis of consolidation			0.7			0.7		0.7
Balance at Jun. 30, 2020	**309.0**	**28.8**	**259.7**	**–0.2**	**–1.1**	**596.2**	**0.2**	**596.4**

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

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	1–6/2020	1–6/2019
EBIT		**–49.9**	**56.5**
Income taxes paid		–4.5	–20.7
Depreciation, amortization and impairment of non-current assets		48.0	38.6
Gains/losses on the sale of non-current assets		0.0	–8.9
Profit/loss and impairment on equity-accounted investments		–1.1	–0.4
Other non-cash income and expenses		0.7	2.9
Change in working capital		–6.6	–55.5
Change in inventories		–38.3	–53.9
Change in trade receivables		50.7	–13.5
Change in trade payables		–19.0	11.9
Change in other receivables and other current assets		38.8	2.7
Change in provisions and other liabilities (excluding financial liabilities)		–69.1	–14.3
Cash flow from operating activities		**–43.7**	**0.9**
Capital expenditure on intangible assets, property, plant and equipment		–39.8	–49.4
Expenditure on investments		0.0	–0.3
Proceeds from the sale of non-current assets		0.2	4.1
Cash flow from investing activities		**–39.6**	**–45.6**
Dividend payments to shareholders		0.0	–18.1
Interest income		0.0	0.2
Interest expense		–2.4	–1.7
Cash receipts from borrowings		87.2	4.3
Repayments of loans		–18.1	–10.0
Principal elements of lease payments		–8.4	–6.0
Cash flow from financing activities		**58.3**	**–31.3**
Cash flow from operating activities		–43.7	0.9
Cash flow from investing activities		–39.6	–45.6
Cash flow from financing activities		58.3	–31.3
Change in cash and cash equivalents		**–25.0**	**–76.0**
Cash and cash equivalents at Jan. 1		**55.3**	**132.8**
Change in cash and cash equivalents		–25.0	–76.0
Change in cash and cash equivalents related to exchange rates		–0.3	0.2
Change in cash and cash equivalents related to the basis of consolidation		0.3	–
Cash and cash equivalents at Jun. 30		**30.3**	**57.0**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2020

BASIC PRINCIPLES

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These interim financial statements for the period ended June 30, 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Accounting Standards Board (IASB) regarding interim financial reporting (IAS 34) as adopted by the European Union. Consequently, these interim consolidated financial statements do not contain all the information and notes required by IFRS for consolidated financial statements for a full financial year, and should therefore be read in conjunction with the IFRS consolidated financial statements published for the 2019 financial year.

The condensed interim consolidated financial statements for the period ended June 30, 2020 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity, and selected notes to the consolidated financial statements – and the interim group management report for the period from January 1 to June 30, 2020 have been reviewed by an auditor pursuant to section 115 of the German Securities Trading Act (WpHG).

SIGNIFICANT ACCOUNTING POLICIES

With the exception of the amendments described below, the accounting policies used in the preparation of these interim consolidated financial statements are essentially the same as those used in the most recent consolidated financial statements for the year ended December 31, 2019. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2019.

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

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 this amendment did not have 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. 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.

Significant estimates and assumptions The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires estimates and assumptions to be made that have an impact on the recognition, measurement, and reporting of assets and liabilities, on the disclosure of contingent assets and liabilities as at the balance sheet date, and on the reporting of income and expenses in the period under review. Where the worldwide COVID-19 pandemic has resulted in changes to significant estimates and assumptions, these are explained in the relevant notes.

CHANGES IN THE BASIS OF CONSOLIDATION

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.

EFFECTS OF THE CORONAVIRUS CRISIS ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The coronavirus crisis had a considerable impact on the Group's business activities in the first half of 2020. 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 €2.1 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. Based on updated estimates and assumptions, non-current non-financial assets were tested for indications of impairment as at the balance sheet date. This involved conducting impairment tests on the basis of updated variables, taking into account any headroom from previous impairment tests. A significant assumption in this context is that the effects of the coronavirus crisis will be less pronounced in the second half of the year and the increases in revenue and earnings previously expected will be achieved in subsequent years. The estimates and assumptions used in the impairment tests are of course subject to additional uncertainty in light of the coronavirus crisis. As a result, there may be variances from these estimates. 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. For the measurement of inventories, inventory movement rates were analyzed, with particular reference to the consumption of inventories in the first half of 2020. 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 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 notes below.

SELECTED EXPLANATORY DISCLOSURES

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

1. REVENUE

Even at the start of 2020, we had expected a fall in revenue in view of the low level of orders on hand at the end of 2019, a situation that looked set to continue based on the forecasts for the markets relevant to DEUTZ.

The coronavirus pandemic and its global impact on all economic activity put a further heavy burden on DEUTZ's engine business in what was already a challenging market environment. In the reporting period, this resulted in a sharp fall in revenue overall.

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

€ million

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

Breakdown of revenue by application segment in the first half of 2019

€ million

	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	**Total**
Construction Equipment	261.1	13.9			**275.0**
Material Handling	172.5	21.4			**193.9**
Agricultural Machinery	138.2	3.4			**141.6**
Stationary Equipment	51.7	27.2			**78.9**
Service	90.3	88.4			**178.7**
Miscellaneous/ Marine	16.0	30.7	17.0	–2.0	**61.7**
Total	**729.8**	**185.0**	**17.0**	**–2.0**	**929.8**

Breakdown of revenue by region in the first half of 2020

€ million

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

Breakdown of revenue by region in the first half of 2019

€ million

	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	**Total**
Europe/Middle East/Africa	448.2	102.4	12.1	–2.0	**560.7**
Americas	167.0	42.2	4.4		**213.6**
Asia-Pacific	114.6	40.4	0.5		**155.5**
Total	**729.8**	**185.0**	**17.0**	**–2.0**	**929.8**

2. INCOME TAXES

Income taxes fell to €0.7 million in the first half of 2020 (H1 2019: €10.0 million) because of the sharp drop in net income as a result of the coronavirus pandemic.

3. OTHER COMPREHENSIVE INCOME

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

€ million	1–6/2020			1–6/2019		
	Before taxes	**Taxes**	**After taxes**	Before taxes	Taxes	After taxes
Amounts that will not be reclassified to the income statement in the future	**–4.4**	**1.4**	**–3.0**	**–10.0**	**3.1**	**–6.9**
Remeasurements of defined benefit plans	–4.4	1.4	–3.0	–10.0	3.1	–6.9
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**–1.3**	**–0.1**	**–1.4**	**4.4**	**–0.1**	**4.3**
Currency translation differences	–1.6	0.0	–1.6	3.7	0.0	3.7
thereof profit/loss on equity-accounted investments	–1.2	0.0	–1.2	2.9	0.0	2.9
Effective portion of change in fair value from cash flow hedges	0.3	–0.1	0.2	0.4	–0.1	0.3
Fair value of financial instruments	0.0	0.0	0.0	0.3	0.0	0.3
Other comprehensive income	**–5.7**	**1.3**	**–4.4**	**–5.6**	**3.0**	**–2.6**

A pre-tax loss of €1.1 million relating to cash flow hedges was reclassified to the income statement in the first six months of 2020 (H1 2019: pre-tax loss of €1.6 million).

4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure on property, plant and equipment and on intangible assets (after deducting grants) amounted to €48.0 million in the first half of the year (H1 2019: €51.8 million). This was broken down into €37.5 million (H1 2019: €39.4 million) on property, plant and equipment and €10.5 million (H1 2019: €12.4 million) on intangible assets.

Additions to property, plant and equipment were predominantly attributable to the extension of leases for leased property and to the set-up of the new assembly line in Cologne-Porz for engine series with a capacity of less than 4 liters. Investing activities also focused on new test rigs for gas and electric motors. The bulk of capital expenditure on intangible assets was channeled into the development of new engines. As at June 30, 2020, property, plant and equipment included right-of-use assets in connection with leases amounting to €49.6 million (December 31, 2019: €41.4 million).

Capital expenditure was partly offset by depreciation and amortization of €42.7 million. There were also impairment losses of €5.3 million recognized on intangible assets and property, plant and equipment. Of these impairment losses, €4.9 million related to capitalized development expenditure and €0.4 million to property, plant and equipment in connection with three engine series that are still in development. The impairment losses are largely the result of changes in market forecasts due to the global coronavirus pandemic. Of the total impairment losses, €4.7 million was attributable to the DEUTZ Compact Engines segment and €0.6 million to the DEUTZ Customized Solutions segment. 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 €13.6 million, €12.9 million, and minus €0.7 million respectively. The respective pre-tax discount rates underlying the calculation were 8.8 percent, 7.6 percent, and 10.4 percent.

5. INVENTORIES

The volume of business declined significantly in the first half of 2020, due in large part to the worldwide coronavirus pandemic. Against this backdrop, inventory movement rates were analyzed, resulting in a €3.0 million increase in impairment losses on bought-in parts and spare parts.

6. FINANCIAL DEBT

€ million	Jun. 30, 2020	Dec. 31, 2019
Non-current	56.3	34.1
Current	91.8	36.4
Total	**148.1**	**70.5**

The higher level of non-current liabilities was due to the taking out of medium-term loans and the increase in lease liabilities. This increase in lease liabilities was mainly attributable to the extension of leases for leased property. The rise in current financial debt mainly related to the drawdown of lines of credit in view of the coronavirus pandemic. 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.

As at June 30, 2020, financial debt included non-current lease liabilities of €36.8 million (December 31, 2019: €28.8 million) and current lease liabilities of €13.3 million (December 31, 2019: €13.1 million).

7. OTHER PROVISIONS AND CONTINGENT ASSETS

€ million	Jun. 30, 2020	Dec. 31, 2019
Non-current	29.7	33.4
Current	65.6	66.6
Total	**95.3**	**100.0**

The fall in current provisions was mainly due to the fall in provisions for warranty obligations in view of the decrease in unit sales triggered by the coronavirus pandemic in the reporting period.

OTHER INFORMATION

FINANCIAL INSTRUMENTS

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

Financial instruments (ASSETS)

Jun. 30, 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**	**2.3**	**1.1**	**4.8**
Current financial assets	**132.9**	**0.3**	**13.2**	**33.4**	**179.8**
Trade receivables	88.7	0.0	13.2	0.0	101.9
Other receivables and assets	13.9	0.3	0.0	33.4	47.6
Cash and cash equivalents	30.3	0.0	0.0	0.0	30.3

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)

Jun. 30, 2020	Measured at amortized cost	Measured at fair value		Liabilities not within the scope of IFRS 9	
€ million	Financial liabilities	Derivatives designated as hedging instruments (recognized as other comprehensive income/loss)	Held–for–trading financial liabilities	Carrying amount	Carrying amount on the balance sheet
Non-current financial liabilities	**20.7**	**0.0**	**3.1**	**37.8**	**61.6**
Financial debt	19.5	0.0	0.0	36.8	56.3
Lease liabilities	0.0	0.0	0.0	36.8	36.8
Miscellaneous financial debt	19.5	0.0	0.0	0.0	19.5
Other liabilities	1.2	0.0	3.1	1.0	5.3
Current financial liabilities	**284.9**	**0.3**	**0.7**	**26.9**	**312.8**
Financial debt	78.5	0.0	0.0	13.3	91.8
Lease liabilities	0.0	0.0	0.0	13.3	13.3
Miscellaneous financial debt	78.5	0.0	0.0	0.0	78.5
Trade payables	153.4	0.0	0.0	0.0	153.4
Other liabilities	53.0	0.3	0.7	13.6	67.6

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 as 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	**Jun. 30, 2020**		Dec. 31, 2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets	**132.9**	**132.9**	**259.8**	**259.8**
Trade receivables	88.7	88.7	142.1	142.1
Other receivables and assets	13.9	13.9	62.4	62.4
Cash and cash equivalents	30.3	30.3	55.3	55.3
Financial liabilities	**305.6**	**306.2**	**324.0**	**324.2**
Financial debt	98.0	98.6	28.6	28.8
Trade payables	153.4	153.4	180.6	180.6
Other liabilities	54.2	54.2	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 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 assignment to the three levels of the IFRS 13 measurement hierarchy of the fair values as at the balance sheet date of financial assets and liabilities that were measured at fair value in the consolidated financial statements, or for which a fair value was calculated in the notes to the financial statements:

Jun. 30, 2020

€ million

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loan granted	0.0	0.0	0.0	0.0	0.0
Securities – recognized through other comprehensive income	1.3	1.3	1.3	0.0	0.0
Securities – recognized through profit or loss	2.3	2.3	2.3	0.0	0.0
Currency forwards – recognized through other comprehensive income	0.4	0.4	0.0	0.4	0.0
Trade receivables	13.2	13.2	0.0	0.0	13.2
Financial liabilities					
Currency forwards – designated as hedging instruments	0.3	0.3	0.0	0.3	0.0
Currency forwards – held for trading	0.1	0.1	0.0	0.1	0.0
Other liabilities – held for trading	3.7	3.7	0.0	0.0	3.7
Financial debt	98.0	98.6	0.0	0.0	98.6

Dec. 31, 2019

€ million

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loan granted	0.0	0.0	0.0	0.0	0.0
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					
Interest-rate swaps	0.0	0.0	0.0	0.0	0.0
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 loan granted, which is recognized at fair value and has a nominal value of €13.8 million, is measured at fair value through profit or loss on the basis of the contractual agreement and was carried at zero both as at June 30, 2020 and as at December 31, 2019. Senior management continues to expect that no further loan repayments will be received because insolvency proceedings have been opened for the borrower.

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

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

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

Other liabilities, which are recognized at fair value and amounted to €3.7 million, relate to the contingent consideration for the purchase of the shares in Futavis. Fair value was determined using a method based on present value. Measurement was based, in particular, on senior management's estimates of the likelihood of certain conditions occurring, for example the achievement of earnings targets. DEUTZ AG's senior management estimates that the contingent consideration will be in a range of €2.4 million to €6.0 million.

SEGMENT REPORTING

Information about the segments of the DEUTZ Group for the first half of 2020 and the first half of 2019 is shown in the following table:

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

1–6/2019	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	**Total segments**	Reconciliation	**DEUTZ Group**
€ million						
External revenue	729.8	185.0	15.0	929.8	0.0	929.8
Intersegment revenue	0.0	0.0	2.0	2.0	–2.0	0.0
Total revenue	**729.8**	**185.0**	**17.0**	**931.8**	**–2.0**	**929.8**
Operating profit/loss (EBIT before exceptional items)	34.9	23.6	–11.3	47.2	0.0	47.2

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

€ million

	1–6/2020	1–6/2019
Overall profit/loss of the segments	**–49.9**	**47.2**
Reconciliation	0.0	0.0
EBIT before exceptional items	**–49.9**	**47.2**
Exceptional items	0.0	9.3
EBIT	**–49.9**	**56.5**
Interest expenses, net	–1.7	–1.2
Net income before income taxes	**–51.6**	**55.3**
Income taxes	–0.7	–10.0
Net income	**–52.3**	**45.3**

RELATED PARTY DISCLOSURES

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

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

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

€ million	Goods and services provided		Other expenses in connection with goods and services received		Receivables		Payables	
	1–6/2020	1–6/2019	**1–6/2020**	1–6/2019	**Jun. 30, 2020**	Dec. 31, 2019	**Jun. 30, 2020**	Dec. 31, 2019
Associates	3.8	0.0	0.0	0.0	1.2	0.9	0.0	0.0
Joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.5	2.4	2.4	0.0	0.3	3.5	3.1
Total	**3.8**	**0.5**	**2.4**	**2.4**	**1.2**	**1.2**	**3.5**	**3.1**

As at June 30, 2020, the Company's receivables due from other investments of €9.2 million had been written off in full (December 31, 2019: impairment losses of €9.9 million recognized on receivables of €10.2 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.

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

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

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

Cologne, July 30, 2020

DEUTZ Aktiengesellschaft
The Board of Management

Dr. Ing. Frank Hiller

Dr. Andreas Strecker

Michael Wellenzohn

RESPONSIBILITY STATEMENT

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

Cologne, July 30, 2020

DEUTZ Aktiengesellschaft
The Board of Management

Dr. Ing. Frank Hiller

Dr. Andreas Strecker

Michael Wellenzohn

REVIEW REPORT

To DEUTZ Aktiengesellschaft, Cologne

We have reviewed the condensed interim consolidated financial statements – comprising the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity, and selected explanatory notes – and the interim group management report of DEUTZ Aktiengesellschaft, Cologne, for the period from January 1 to June 30, 2020, which are part of the half-year financial report pursuant to section 115 Wertpapierhandelsgesetz (WpHG, German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with the IFRS applicable to interim financial reporting, as adopted by the EU, and of the interim group management report in accordance with the provisions of the WpHG applicable to interim group management reports is the responsibility of the Company's Board of Management. Our responsibility is to issue a review report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

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

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

Cologne, August 3, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki Wirtschaftsprüfer (German public auditor)	Gerd Tolls Wirtschaftsprüfer (German public auditor)

FINANCIAL CALENDAR

2020	
November 10	Quarterly statement for the first to third quarter of 2020 Conference call with analysts and investors
2021	
March 18	2020 annual report Annual results press conference with analysts and investors
April 29	Annual General Meeting
May 6	Interim management 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

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