WE ARE RE-INVENTING THE ENGINE

DEUTZ AG Annual Report 2021

DEUTZ

DEUTZ GROUP: OVERVIEW

€ million

	2021	2020	Change
New orders	2,012.6	1,322.5	52.2 %
Unit sales (units)	201,283	150,928	33.4 %
thereof DEUTZ engines[1]	160,882	121,034	32.9 %
thereof Torqeedo	40,401	29,894	35.1 %
Revenue	1,617.3	1,295.6	24.8 %
EBITDA	123.1	−0.2	–
EBITDA (before exceptional items)	126.2	31.7	298.1 %
EBIT	34.1	−106.6	–
thereof exceptional items	−3.1	−31.9	90.3 %
Operating profit/loss (EBIT before exceptional items)	37.2	−74.7	–
EBIT margin (%)	2.1	−8.2	+10.3 pp
EBIT margin (before exceptional items, %)	2.3	−5.8	+8.1 pp
Net income	38.2	−107.6	–
Net income (before exceptional items)	41.3	−75.7	–
Earnings per share (€)	0.32	−0.89	–
Earnings per share (before exceptional items, €)	0.34	−0.63	–
Total assets	1,290.1	1,180.5	9.3 %
Non-current assets	608.2	613.6	−0.9 %
Equity	588.4	535.2	9.9 %
Equity ratio (%)	45.6	45.3	+0.3 pp
Cash flow from operating activities	93.3	44.9	107.8 %
Free cash flow[2]	21.6	−35.8	–
Net financial position[3]	−79.7	−83.8	4.9 %
Working capital[4]	253.2	235.0	7.7 %
Working capital ratio (average, %)[5]	15.5	21.8	−6.3 pp
Capital expenditure (after deducting grants)[6]	65.7	91.7	−28.4 %
Depreciation and amortization	89.0	106.4	−16.4 %
Research and development expenditure (after deducting grants)	82.3	81.4	1.1 %
thereof capitalized	6.8	12.6	−46.0 %
Employees[7] (number as at December 31)	4,751	4,586	3.6 %

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

DEUTZ Compact Engines

	2021	2020	Change
New orders (€ million)	1,585.5	954.3	66.1 %
Unit sales (units)	143,622	102,054	40.7 %
Revenue (€ million)	1,243.4	943.8	31.7 %
EBIT (€ million)	12.4	−80.5	–
EBIT margin (%)	1.0	−8.5	+9.5 pp

DEUTZ Customized Solutions

	2021	2020	Change
New orders (€ million)	362.6	324.5	11.7 %
Unit sales (units)	17,260	18,980	−9.1 %
Revenue (€ million)	320.2	310.1	3.3 %
EBIT (€ million)	31.3	18.7	67.4 %
EBIT margin (%)	9.8	6.0	+3.8 pp

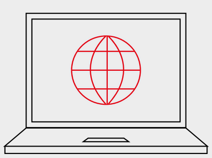
DEUTZ.
THE ENGINE.

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.

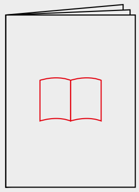
DEUTZ ANNUAL REPORT 2021

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 2021 ONLINE ANNUAL REPORT
INCLUDING A KPI TOOL AND INTERACTIVE FEATURES
AT

annualreport.deutz.com/2021



DEUTZ 2021 – THE MAGAZINE
PRINTED OR AS A PDF
AT

www.deutz.com/magazin2021/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. 90 onward.

REPORTING STRUCTURE

The reporting period covers the 2021 financial year, which began on January 1 and ended on December 31, 2021. 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 21, 2022. 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. 205 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. 126 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. 222 onward in this report.

MISCELLANEOUS

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

CONTENTS

A MESSAGE FROM THE CHAIRMAN OF THE BOARD OF MANAGEMENT

Dear friends of the company,

The lights are on green. Green because we achieved a great deal in 2021 and set the course for the future too, both in strategic and, most significantly, in operational terms.

In the industries that we serve, an increase in customers' willingness to proceed with capital expenditure prompted us to raise our guidance for 2021 as a whole, not once but twice over the course of the year. Despite the challenging situation in the procurement market, our results reveal that we delivered on the prediction we made to you: An increase of around 33 percent in unit sales to 201,283 engines sold and revenue growth of approximately 25 percent to nearly €1.62 billion. Our EBIT margin before exceptional items, meanwhile, improved by 8.1 percentage points year on year to 2.3 percent, due in no small part to the rigorous implementation of our efficiency program. Adjusted for exceptional items, net income came to roughly €41 million, which translated into earnings per share of €0.34.

Of course, we would also like our shareholders to reap the benefit of last year's positive business performance. The Board of Management and Supervisory Board will therefore propose to the Annual General Meeting on April 28, 2022 that accumulated income be used to pay a dividend of €0.15 per share. This would equate to a dividend ratio of just under 47 percent.

As well as a strong operating performance, DEUTZ reached further strategic milestones that sent a clear signal to the market. For example, we entered into a long-term alliance with the agricultural machinery manufacturer AGCO in 2021, building on the partnership with John Deere Power Systems that was sealed back in 2020. And, once again, we were able to significantly expand our collaboration with SDF. These partnerships are opening up further growth potential for us – both in new business and in the service business. Thanks to S-DEUTZ, we are also making our high-margin service activities even simpler, more digital, and more future-proof. And two new DEUTZ Power Centers in the USA mean we are now even closer to our customers.

“We confirmed our credentials as a leader of innovation in our industry in impressive style last year.”

DR. SEBASTIAN C. SCHULTE

All this is producing results: We hit our revenue target of around €400 million for the service business in 2021, which gave it an approximate 25 percent share of consolidated revenue. But we will not be resting on our laurels. The expansion of our service business is continuing apace, with steps already being taken to make further acquisitions in Europe.

Another reason why the lights are on green – perhaps the main reason – is the excellent progress we are making in DEUTZ’s transition to alternative drives. To green engines. The world is increasingly turning to carbon-neutral drive solutions, and the off-highway segment is no exception. We are helping to keep the world moving with our innovative drive solutions. After all, we know how to make engines better, cleaner, and more efficient. In August 2021, DEUTZ unveiled the first market-ready hydrogen engine – the TCG 7.8 H2 – which meets the EU’s prescribed CO_2 ‘Zero Emission’ limit.

But that was not the only way in which we confirmed our credentials as a leader of innovation in our industry last year. At the DEUTZ DAYS event in November 2021, we presented the all-electric crawler crane which is made by Maeda and fitted with an electric drive from DEUTZ. Volume production of the crane is set to begin as early as 2023. And because power supply infrastructure is key when it comes to using green drive systems, we are also developing and producing mobile rapid-charging stations such as the DEUTZ Powertree.

We are reinventing the engine, making sustainable drive systems a reality. This is reflected in our new reporting structure. We have created new segments, 'Classic' and 'Green', that came into effect from the beginning of 2022. All activities connected with the development and production of new non-diesel drives will now be assigned to the Green segment, providing much greater transparency in this area.

Overall, we maintain an optimistic view of the future, even in light of the prevailing uncertainties surrounding the coronavirus pandemic, global material and transport bottlenecks, and the Ukraine crisis and its impact on the global economy. We have taken the steps that are needed to secure the Company's future success. The restructuring measures that we have initiated are increasingly taking effect. We are forging ahead with our growth projects despite the impact of the coronavirus pandemic – and we have the financial means to continue investing in the long-term transformation of our business.

We want to achieve our financial objectives while fulfilling our corporate, social, and environmental responsibilities. To underline our commitment, we signed up to the United Nations Global Compact in March 2021. In doing so, we voluntarily undertook – on the basis of ten universally accepted principles – to promote human rights, fair working conditions, environmental protection, and the fight against corruption. Today and in the future. Because, ultimately, only those who understand sustainability as a necessity of our times will be successful in the long run – and have an environment fit to live in.

Our employees are the driving force for what we have achieved so far but also for what we aim to achieve going forward. As pioneers and innovators, they are paving the way for DEUTZ itself to become a pioneer of carbon-neutral drive systems for the off-highway sector. I would like to thank them for this. My thanks also go to our customers and business partners and to you, our valued shareholders, for the confidence you have shown in us in times of great uncertainty for us all.

Let us all pull together to ensure that the DEUTZ engine continues to turn even in challenging times. Toward a sustainable and successful future.

Cologne, March 2022

Dr. Sebastian C. Schulte
CHAIRMAN OF THE BOARD OF MANAGEMENT

"The world of engines is changing rapidly and radically. Our ambition is to play an active role in driving and shaping the transition to green engines."

DR. SEBASTIAN C. SCHULTE

"There is more than one road that leads to green off-highway mobility. We will only achieve the Paris climate goals if we take an open-minded approach to technology."

DR. ING. MARKUS MÜLLER

"Our solutions are tailored to each customer's needs and make our global service offering even faster, more cost-effective, and more attractive worldwide."

MICHAEL WELLENZOHN

THE BOARD OF MANAGEMENT

DR. ING. MARKUS MÜLLER

Member of the Board of Management responsible for research and development *(since March 15, 2021)*, purchasing, and production *(since February 12, 2022)*

- Born on January 31, 1980 in Bonn, Germany
- Member of the Board of Management since March 15, 2021, appointed until March 14, 2024

MICHAEL WELLENZOHN

Member of the Board of Management responsible for 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

Chairman of the Board of Management responsible for technical and head-office functions, sustainability *(since February 13, 2022)*, finance, human resources, 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

Report of the Supervisory Board

OPERATING PROCEDURES OF THE SUPERVISORY BOARD

In 2021, 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 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.

A total of four ordinary and three extraordinary meetings of the Supervisory Board were held in 2021. Apologies for absence were received from Mr. Alois Ludwig for the meetings on October 20 and 21, 2021 and from Ms. Sophie Albrecht for the meeting on December 9, 2021. All members of the Supervisory Board participated in all the other meetings in 2021. 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:

Dr. Dietmar Voggenreiter
Chairman of the Supervisory Board

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 (until February 12, 2022)	15	15	100 %
Corinna Töpfer-Hartung Deputy Chairwoman of the Supervisory Board	15	15	100 %
Sophie Albrecht	8	7	87.5 %
Sabine Beutert	11	11	100 %
Yavuz Büyükdag	7	7	100 %
Dr. Fabian Dietrich	7	7	100 %
Hans-Peter Finken	7	7	100 %
Patricia Geibel-Conrad	11	11	100 %
Alois Ludwig	10	8	80 %
Dr. Ing. Rudolf Maier	7	7	100 %
Dr. Dietmar Voggenreiter Chairman of the Supervisory Board (from February 12, 2022)	7	7	100 %
Ali Yener	8	8	100 %

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 respective chairpersons 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 two extraordinary meeting of the Supervisory Board. Particular attention was once again 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, including in reference to the acquisition of a minority stake in the fuel cell manufacturer Blue World Technologies Holding ApS, Aalborg, Denmark, 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 2022 budget, the medium-term planning up to 2026, and the approval of capital expenditure and development projects. 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.

The Board of Management ensured that it provided the Supervisory Board with comprehensive, regular, and timely information at all times during the period under review. 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 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 this annual report was published, the Company's Board of Management consisted of three people: Dr. Sebastian C. Schulte (Chairman since February 13, 2022, responsible for technical and head office functions, excluding production, and responsible for finance, human resources, and information services on an interim basis; had already been responsible for finance, human resources, purchasing, and information services since March 1, 2021), Dr. Ing. Markus Müller (responsible for research and development since March 15, 2021; responsible for production and purchasing on an interim basis since February 12, 2022), and Mr. Michael Wellenzohn (responsible for sales, service, and marketing).

At the Supervisory Board meeting on March 11, 2021, following preparatory work by the Human Resources Committee and deliberation by the Arbitration Committee, the Supervisory Board appointed Dr. Ing. Markus Müller as a member of the Board of Management for the period from March 15, 2021 to March 14, 2024. 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. The Supervisory Board would like to take this opportunity to thank Dr. Strecker again for the dedication that he showed in his work on the Board of Management and for the impetus that he gave the Company.

At an extraordinary Supervisory Board meeting held on February 12, 2022, the Supervisory Board decided unanimously and for good cause to revoke the appointment of Dr. Ing. Frank Hiller as Chairman of the Board of Management of DEUTZ AG, whose term of office had been extended in February 2021. At the same meeting, the Supervisory Board decided that a women was to be appointed to the Board of Management again. The relevant process has been initiated and the Board of Management will consist of four people again once it is completed.

CORPORATE GOVERNANCE: DECLARATION OF CONFORMITY NO DEVIATIONS

At its meeting on December 9, 2021, 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, 2021, 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 200 to 201 of this annual report. In the reporting year, the Supervisory Board once again discussed in detail the results of the efficiency audit (article 5.6 DCGK, version dated February 7, 2017) that had been conducted in the prior year and identified measures for improvement on this basis.

At the time this annual report was published, the members of the Human Resources Committee were Dr. Dietmar Voggenreiter (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 three meetings in 2021, 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 achievement of the Board of Management's targets for 2020, and the setting of Board of Management targets, including medium-term targets, for 2021.

At the time this annual report was published, the members of the Audit Committee were Ms. Patricia Geibel-Conrad (chairwoman), Ms. Sabine Beutert (deputy chairwoman), Ms. Corinna Töpfer-Hartung, and Dr. Dietmar Voggenreiter. The committee's work primarily focused on the preparatory review of the annual and consolidated financial statements, including the combined management report, of the proposal for the appropriation of profit, and of the separate combined non-financial report of DEUTZ AG and the DEUTZ Group. The recommendations prepared for the Supervisory Board for resolutions concerning these matters were adopted in each case. The auditor's report on its review of the condensed consolidated financial statements and the interim management report as of June 30, 2021 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 2021, all of which were attended by all its members, by the Board of Management and, except on one occasion, by the auditor. The chairwoman of the 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 1, 2022, 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 2021. During the meeting, the auditor gave a detailed report on the process and key findings of the audits of the financial statements. 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 and the auditor provided in-depth answers to all further questions. No issues were raised in the audit findings. The committee's preparatory review also encompassed the separate combined non-financial report of DEUTZ AG and the DEUTZ Group. 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. At the meeting of the full Supervisory Board, the chairwoman of the committee reported in detail on the aforementioned reviews and their findings.

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 approved the services rendered. It appointed the auditor selected by the AGM for 2021, set the auditor's fees, and determined the focus of the audit.

The Board of Management reported regularly on the course of business, the relevant key performance indicators, the liquidity and funding situation, and the Group's working capital. There were extensive discussions on the adjustment of the segment reporting to the new growth strategy for carbon-neutral, off-highway drive solutions. The measurement of investments, goodwill, and intangible assets, the structuring and refinement of non-financial reporting, and accounting-related matters were also addressed throughout the year. The committee also focused on the Board of Management's deliberations on the refinement of the financial control of investments, on tax strategy and the tax compliance management system, on IT matters, and on the management accounts requested by the Audit Committee. At various meetings, the committee examined the effectiveness of the internal control system, the adaptation of the risk management system to meet the new requirements under IDW PS 340, the effectiveness and findings of Corporate Audit, the compliance management system, and the reports on pending and potential legal disputes. 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. Reports regarding potential transactions with related parties were provided on at least a quarterly basis; there were no transactions requiring approval or disclosure in the reporting year.

The 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, the German Supply Chain Act, and other new legislation, and to refine the non-financial reporting process. In the reporting year, in order to ensure compliance with the new requirements arising from the Financial Market Integrity Strengthening Act (FISG), the Supervisory Board resolved to change its rules of procedure, the rules of procedure of its Audit Committee, and its profile of skills and expertise and diversity plan.

The chairwoman 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 (chairman), 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 needed to be convened once in 2021 in connection with the appointment of Dr. Ing. Markus Müller as a member of the Board of Management.

At the time this annual report was published, the members of the Arbitration Committee were Dr. Dietmar Voggenreiter (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 was convened once in 2021 in connection with the appointment of Dr. Ing. Markus Müller as a member of the Board of Management.

At the time this annual report was published, the members of the Nomination Committee were Dr. Dietmar Voggenreiter (chairman), 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 did not meet in 2021.

The Supervisory Board 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, 2021, were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Cologne, Germany, the auditor appointed by the Annual General Meeting on April 29, 2021. 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 auditor explained its audit findings in detail to the Audit Committee meeting held on March 1, 2022 and to the Supervisory Board meeting held on March 10, 2022 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

There were no changes to the composition of the Supervisory Board in 2021. However, after Dr. Ing. Bernd Bohr stepped down as chairman of the Supervisory Board at the extraordinary Supervisory Board meeting on February 12, 2022, the Supervisory Board elected Dr. Dietmar Voggenreiter as its new chairman. The Supervisory Board would like to take this opportunity to thank Dr. Ing. Bohr for his work as chairman of the Supervisory Board and welcomes the continuation of a professional and close working relationship with him.

There were no changes to the composition of the Supervisory Board's committees in 2021 and up to the time that this annual report was published. At the extraordinary Supervisory Board meeting on February 12, 2022, in view of the fact that Dr. Dietmar Voggenreiter was taking over as chairman of the Supervisory Board from Dr. Ing. Bernd Bohr, it was also decided that Dr. Voggenreiter would succeed Dr. Ing. Bohr in all his committee roles with immediate effect.

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. There were two training courses on specific themes for the Supervisory Board in the reporting year. 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.

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 2021. Special thanks are due for the hard work and flexibility shown by all employees as they dedicated themselves to the Company's cause while having to cope with the measures taken to combat the coronavirus crisis.

Cologne, March 2022

D. Vogg

Dr. Dietmar Voggenreiter
The Supervisory Board

DEUTZ in the capital markets

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

All in all, 2021 was a very positive year in the stock market. On November 17, the DAX climbed to a new all-time high of 16,251 points. Almost all sectors of the economy managed to emerge from the economic recession that had been triggered by the coronavirus pandemic in 2020. The continued expansionary monetary policy of the US Federal Reserve and the European Central Bank, the billions pledged in coronavirus aid packages by governments around the world, and – last but not least – the broad availability of COVID-19 vaccines, generated confidence in the economy that was reflected in encouraging share price gains. However, the spread of the new Omicron variant of coronavirus, combined with the threat of renewed lockdowns, prompted a noticeable consolidation in the markets towards the end of the year.

Germany's key DAX index closed at 15,884 points on December 30, 2021, a gain of 15.8 percent compared with the figure for the end of 2020. The SDAX, to which DEUTZ shares belong, rose by 11.2 percent over the same period and closed at 16,414 points at the end of 2020. The DAXsector Industrial, which comprises German industrial companies, also improved year on year, climbing by 19.3 percent to 4,281 points.

DEUTZ shares deliver a volatile but ultimately strong performance The share price of DEUTZ climbed more or less continually over the course of the year, reaching its high for 2021 of €8.29 on September 15 after the forecast was adjusted upward for the second time. The shares then consolidated slightly and stabilized at €7.67 ahead of the publication of the results for the first three quarters on November 9, 2021. Disappointment about the weaker outlook for China published at this time triggered a further setback to €6.00 on November 30. However, towards the end of the year, the DEUTZ share price recovered to €6.57, putting the year-end closing price 28.8 percent up on the closing price for 2020.

Market capitalization stood at €794.1 million at the end of the reporting period.

Key figures for DEUTZ shares

€

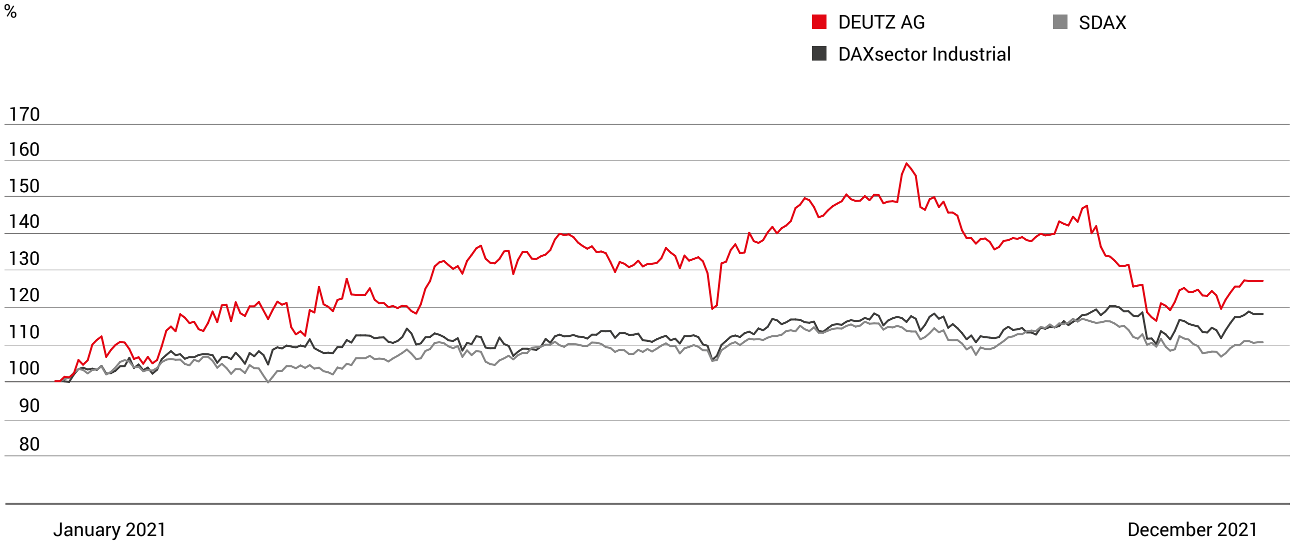
	2021	2020
Number of shares as at Dec. 31	120,861,783	120,861,783
Average number of shares	120,861,783	120,861,783
Share price[1] as at Dec. 31	6.57	5.10
Share price high[1]	8.29	5.77
Share price low[1]	5.10	2.74
Market capitalization as at Dec. 31 (€ million)	794.1	616.4
Earnings per share	0.32	–0.89

[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 2021 reporting year and net income of €38.2 million, basic earnings per share amounted to €0.32, compared with minus €0.89 in 2020.

DEUTZ shares relative to DAXsector Industrial and SDAX (indexed)



ALL DEUTZ SHARES IN FREE FLOAT

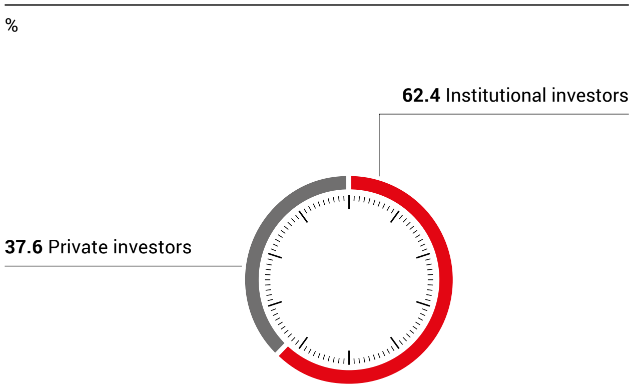
100 percent of DEUTZ AG's shares are in free float. As regards the shareholder structure, the proportion of the shares held by private investors increased in the reporting year. They held 37.6 percent of the shares as at December 31, 2021 (December 31, 2020: 35.5 percent), while the proportion held by institutional investors stood at 62.4 percent (December 31, 2020: 57.9 percent). The majority of the private investors are in Germany. US investors dominate among the institutional investors, holding a total of 24.6 percent of the shares, while German fund management companies hold 16.4 percent.[1]

[1] Nasdaq, December 2021.

At the end of 2021, the following companies held more than 3 percent of the shares in DEUTZ AG: Union Investment (Germany) 6.2 percent, Ardan Livvey Investors B.V. (Netherlands) 5.0 percent, Dimensional Holdings (USA) 4.8 percent, DWS Investment (Germany) 4.3 percent, Janus Henderson (UK) 4.2 percent, Alliance Bernstein (USA) 3.8 percent, The Vanguard Group Inc (USA) 3.4 percent, Acadian Asset Management (UK) 3.2 percent and Norges Bank Investment Management (Norway) 3.1 percent.[1]

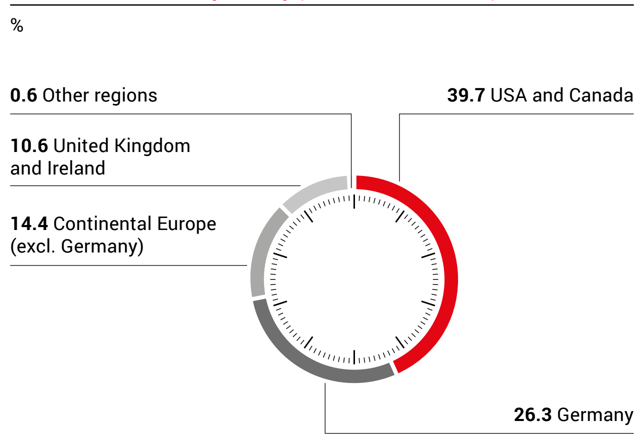
Voting right notifications pursuant to section 40 (1) of the German Securities Trading Act (WpHG) and notifiable managers' transactions in securities pursuant to article 19 of the Market Abuse Regulation (MAR) are published on our website at www.deutz.com under Investor Relations.

Shareholder structure[1]



[1] Nasdaq, December 2021.

Shareholder structure by country (institutional investors)[1]



[1] Nasdaq, December 2021.

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. Under our dividend policy, we aim to distribute around 30 percent of net income to our shareholders.

The Board of Management and Supervisory Board will propose to the Annual General Meeting on April 28, 2022 that accumulated income be used to pay a dividend of €0.15 per share. This would give a dividend ratio of 46.9 percent.

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 2021. In addition to producing regular financial reports, we provided details of current business performance and other key developments during conference calls and in periodic press releases. 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. Most of these took place virtually due to travel restrictions and other measures in place to contain the spread of coronavirus. The highlight of the capital market activities was the capital markets day, which took place at the Coreum in Stockstadt, Germany, on November 17, 2021 and was attended by the full Board of Management. The event was held in a hybrid format and was used to present the new reporting structure featuring the Green and Classic segments and the growth strategy for alternative drive systems.

ANALYSTS' RECOMMENDATIONS

The assessments and recommendations of financial analysts provide a basis for equity investments by private and institutional investors.

Analysts' recommendations[1]

Institution	Date	Target price (€)	Recommendation
Berenberg	Feb. 16, 2022	6.80	Hold
DZ Bank	Jan. 31, 2022	8.40	Buy
Hauck & Aufhäuser	Feb. 15, 2022	10.80	Buy
HSBC Trinkaus & Burkhardt	Sep. 17, 2021	8.90	Buy
Kepler Cheuvreux	Feb. 22, 2022	8.00	Buy
M. M. Warburg	Feb. 3, 2022	8.20	Buy

[1] As at February 22, 2022; 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 employed around 4,750 people worldwide at the end of 2021. Its core competencies are the development, production, and distribution of drive solutions in the power range up to 620 kW for off-highway applications. The current portfolio extends from diesel and gas engines to hybrid, all-electric, and hydrogen drives. DEUTZ drives are used in a wide range of applications including construction equipment, agricultural machinery, material handling equipment such as forklift trucks and lifting platforms, commercial vehicles, rail vehicles, and boats used for private or commercial purposes. DEUTZ also offers a comprehensive range of digital and analog services through more than 800 sales and service partners in over 130 countries.

In the year under review, the Company's operating activities were divided into three segments: DEUTZ Compact Engines (DCE), DEUTZ Customized Solutions (DCS), and Other. See also 'Strategy and objectives', p. 22 onward. The DCE segment, which generated around 70 percent of consolidated revenue in 2021, comprises liquid-cooled engines with capacities of up to 8 liters and the equity-accounted joint venture with Chinese construction equipment manufacturer SANY. The DCS segment comprises liquid-cooled engines with capacities of over 8 liters, air-cooled drives, reconditioned exchange engines and parts produced under the name Xchange, and engine series that are soon to be discontinued. The DCS segment's share of revenue in 2021 was around 20 percent. The DEUTZ subsidiary Torqeedo, which develops and sells electric boat drives, is included in the Other segment alongside development services provider Futavis, which focuses on high-voltage battery management systems and safety engineering.

MARKET AND COMPETITIVE ENVIRONMENT

Sales of engines based on efficient diesel technology, which is the current core business of the DEUTZ Group, are focused on the Europe, North America and Asia regions, and in the case of the latter particularly China. The Group faces competition from rival engine suppliers, mainly in western Europe, North America, and Asia.

DEUTZ's main competitors by application[1,2]

Application segments	Applications	Main competitors[3]
Construction Equipment	Excavators Wheel loaders Pavers Mining equipment	Cummins, USA Isuzu, Japan Weichai, China 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 Marine engines	Cummins, USA General Motors, USA Kubota, Japan Tohatsu, Japan

1 Power Systems Research, October 2021, power output from 19 to 620 kW.
2 With the exception of Weichai, Chinese competitors are not listed here as main competitors due to the lack of comparable quality standards and the significantly lower cost structures.
3 In alphabetical order.

STRATEGY AND OBJECTIVES

The DEUTZ Group's primary objective is to become the world's leading manufacturer of innovative drive systems and a trailblazer of off-highway technology for a carbon-neutral future. At the same time, the Company wants to achieve profitable and sustainable growth and has set itself clear medium-term targets for 2023/2024: revenue in excess of €2 billion and an EBIT margin before exceptional items of between 7 percent and 8 percent. See also 'Outlook for 2023/2024', p. 89.

DEUTZ aims to achieve its financial objectives while fulfilling its social, corporate, and environmental responsibilities. This ambition is reflected in the name of the new sustainability strategy, Taking Responsibility. In line with this strategy, DEUTZ has defined various non-financial targets, for example reducing emissions and the volume of waste at its production sites, reviewing the sustainability performance of its suppliers, and increasing the proportion of women in the workforce. See also the non-financial report, p. 90 onward.

Further development of the product portfolio DEUTZ has a broad product portfolio that is geared to its customers' different needs and is thus being continually refined as requirements and the environment in which it operates change. As different applications require different drive solutions, the Company takes a technology-neutral approach. This means that DEUTZ focuses on offering a combination of diesel technology, petroleum, gas, hybrid, electric, and hydrogen drives, and solutions based on alternative fuels.

Keeping in mind its primary objective of becoming a trailblazer for a zero-carbon future, DEUTZ is particularly proactive in promoting the use of drive solutions that offer a more climate-friendly alternative to the classic internal combustion engine. The Company strongly believes that, among other factors, electrification will play a key role in this, which is why it initiated the E-DEUTZ strategy in 2017. The strategy aims to build a scalable product offering of hybrid and all-electric drive systems for specific customer requirements. The Company's role is to act as both systems engineering partner and systems integrator. In other words, DEUTZ supplies a harmonized system consisting of an electric motor, battery, power electronics, and reduction gear for traction and work unit, along with control software for battery management, functional safety, and actuator logic. Furthermore, the Company believes that hydrogen drives, the use of e-fuels, and fuel cell technology are key elements of the drive-system mix that helps to create green off-highway applications. See also 'Research and development', p. 28 onward, and the non-financial report, p. 110 onward.

New segment reporting structure With effect from January 1, 2022, DEUTZ is putting in place a new reporting structure and introducing the Classic and Green segments. All activities connected with the development and production of non-diesel drives will be assigned to the Green segment. This includes electric drives, the subsidiary Torqeedo, the battery management service provider Futavis, hydrogen-powered drives, and fuel cell technology. Strategic investments will also be included in the Green segment, for example the investment in Blue World Technologies, a leading manufacturer of fuel cells. Activities related to the development, production, distribution, and maintenance of diesel engines will be combined in the Classic segment. The Company hopes the new segmentation of its business activities will provide a more transparent picture of its work on off-highway technology for a carbon-neutral future.

DEUTZ had set itself the target of raising the proportion of consolidated revenue generated by E-DEUTZ to between 5 and 10 percent by 2023/2024, but this has been revised due to the introduction of the new segment reporting structure. The new target is for the proportion of consolidated revenue generated by the Green segment to reach between 5 and 10 percent over the same period.

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

China is the world's largest individual market for construction equipment, with a share of around 57 percent[1] of the global engine market. At the end of 2019, as part of its updated China strategy, the Company had established a joint venture with SANY, China's largest construction equipment manufacturer. In this joint venture, DEUTZ has taken over the manufacture of both construction equipment engines and heavy truck engines for SANY, which means the Company has expanded from the off-highway into the on-highway segment. DEUTZ has also entered into other strategic alliances in the Chinese market. One of these is with diesel engine manufacturer BEINEI, which provides assembly services. In cooperation with its Chinese partners, DEUTZ is continually increasing local production capacity to ensure that it is best placed to meet demand from local customers. See also 'Production and logistics', p. 30 onward.

Expansion and digitalization of the service business The expansion of the high-margin service business is another mainstay of the Company's growth strategy, and DEUTZ is forging ahead with this by broadening its service network and continually adding to its product portfolio. DEUTZ positions itself as a full-service provider, offering its customers a range of services covering the entire product lifecycle. The Company has marketed its fully integrated service components under the S-DEUTZ label since 2021.

The expansion of its service portfolio is focusing not only on building up the **Xchange** business, in which the Company offers reconditioned engines and spare parts, but also on the digitalization of its service concepts. For example, 2021 saw the launch of S-DEUTZ Telematics, which allows the customer to view detailed engine and service information based on real-time monitoring. At the same time, predictive alerts provide recommendations for action and parts to replace, which can significantly reduce downtime and costs. In terms of new analog services, DEUTZ has added a Lifetime Parts Warranty for parts installed by an authorized DEUTZ partner and the DEUTZ Lifecycle Solutions to its service portfolio. This means that the Company offers suitable repair solutions for every stage of the engine lifecycle.

[1] PSR download in January 2022. Based on the OEM production volume (units) in 2021; power output from 19 to 620 kW, **non-captive**.

DEUTZ is continuing to develop its service network, either by adding new sites or by expanding the man-in-van concept, whereby mobile service technicians travel to customers' sites in fully equipped vans. In addition to investment in its own service centers (e.g. the new DEUTZ Power Centers that opened near Dallas and in Las Vegas in the USA, and in Shanghai in China), DEUTZ aims to expand its service network by acquiring selected dealers and thereby achieve even better global coverage. Furthermore, the Company is exploring and expanding new sales channels for parts and the integration of external platforms into existing service concepts.

Process optimization In order to maintain the DEUTZ Group's long-term competitiveness, the restructuring measures it has initiated are aimed at progressively improving processes in all areas of the Company and thereby boosting efficiency. The main focus of the 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, DEUTZ launched a comprehensive efficiency program at the start of 2020 that is helping it to achieve these and other objectives. See also 'Transform for Growth', p. 25.

New strategic partnerships and alliances Strategic partnerships and alliances are a concept that DEUTZ had been pursuing long before the coronavirus crisis. The impact of the pandemic on the flow of goods around the world and on global supply chains has further increased the significance of these relationships. The Company has also identified an emerging trend within its customers' industries to increasingly rely on research and development partnerships, for example, or even to outsource related activities altogether. These developments present DEUTZ with an opportunity to gain market share. At the start of February 2021, for example, the Company signed a long-term supply agreement with agricultural equipment manufacturer SDF, Treviglio, Italy. As well as the supply of engines with a capacity of below and above 4 liters, the agreement includes expansion of the service business between the two companies and is expected to result in additional annual revenue in the low-double-digit millions of euros. In early July, a new strategic partnership was concluded with AGCO International, Neuhausen am Rheinfall, Germany. The long-term agreement covers the supply of 6.1 liter and 4.1 liter engines for Fendt tractors as well as a joint development project for alternative drives. DEUTZ also signed a long-term supply agreement with Turkish construction equipment and agricultural machinery manufacturer ASKO, Gaziantep, Turkey. The agreement covers a wide range of engines for the company's four major brands MST, Başak Traktör, Starken, and ELS Lift. Following the ramp-up phase, the number of engines that DEUTZ plans to deliver to ASKO each year is expected to reach at least five figures, completely replacing the existing suppliers. DEUTZ will also use ASKO's local presence to strengthen its service business in Turkey and Europe. In the field of hydrogen drives, DEUTZ has signed a cooperation agreement with the German Aerospace Center (DLR) regarding a joint project focused on making construction sites more environmentally friendly. The aim of the project is to develop solutions for running construction-site vehicles and agricultural machinery on hydrogen. DEUTZ is also working with a regional utility company on a pilot project for the TCG 7.8 H2 hydrogen engine, which has been market-ready since mid-2021. In this instance, the engine produces electricity in combination with a generator. See also 'Research and development', p. 28 onward.

'TRANSFORM FOR GROWTH' EFFICIENCY PROGRAM

At the start of 2020, DEUTZ launched its overarching Transform for Growth efficiency program. The aim is to increase the Company's profitability while ensuring its long-term competitiveness at a global level. 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. See 'Purchasing and procurement' for further information on digitalization, p. 30 onward. Furthermore, 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. One example is the Global Service Center established at the DEUTZ Spain site in Zafra. Since 2021, the center has provided the DEUTZ branches around the world with support in the areas of finance, purchasing, and financial planning and reporting.

By implementing all defined restructuring, process improvement, and cost reduction measures, DEUTZ intends to achieve gross annual cost savings of around €100 million compared with the base year of 2019. In addition to an adjustment in operating costs, the savings are to be achieved through a reduction in staff costs. To this end, DEUTZ introduced a voluntary redundancy program in September 2020 for its sites in Germany, originally for 350 employees. By the time that the program ended on March 31, 2021, it had been taken up by a total of 361 employees, 133 of whom had left the Company by December 31, 2021.

The top priority was to minimize the social impact of the reduction for all employees. Agreement was therefore reached with the employee representatives on a key issues paper in the third quarter of 2020 that covered the voluntary redundancy program, 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 required the approval of the Company. In imposing this requirement, DEUTZ wanted to make sure that it did not lose workers with the skills and knowledge that it needs.

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 ('DEUTZ pact for innovation and the future') 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 to enhance productivity and innovation in production, assembly, and research and development. See also 'Production and logistics', p. 30 onward, and 'Research and development', p. 28 onward. As part of this agreement, employees made certain undertakings in order to secure the future of the sites, including unpaid increases in working hours during the term of the agreement.

In connection with its efficiency drive, DEUTZ recognized restructuring costs totaling €3.1 million in 2021 (2020: €31.9 million). These costs mainly encompass severance payments and other costs that are directly related to the restructuring.

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.

The companies DEUTZ Japan GK, Tokyo, Japan, and DEUTZ Deutschland GmbH, Stockstadt am Rhein, Germany, were established in 2021. Also last year, DEUTZ Power Solution (Xuzhou) Co., Ltd., Xuzhou, China, was founded as a joint venture by DEUTZ with Beijing Fangda Diesel Engine Technology & Service Co., Ltd., Beijing, China, and SINOCHAIN Environment Protection Co., Ltd., Shanghai, China. The joint venture will develop, manufacture, and market diesel engines. Last year, Service Center Milan S.r.l, Milan, Italy, was merged with DEUTZ Italy S.r.l., Milan, Italy.

In addition to DEUTZ AG, ten German companies (December 31, 2020: nine) and 25 foreign companies (December 31, 2020: 24) were included in the consolidated financial statements as at December 31, 2021. A complete list of DEUTZ AG's shareholdings as at December 31, 2021 can be found in the annex to the notes to the consolidated financial statements. See also 'Shareholdings of DEUTZ AG', p. 198 onward.

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]		2021	2020
Revenue growth	%	24.8	–29.6
EBIT margin (before exceptional items)	%	2.3	–5.8
Working capital ratio (average)	%	15.5	21.8
ROCE (before exceptional items)	%	4.1	–8.1
R&D ratio	%	5.1	6.3
Free cash flow	€ million	21.6	–35.8

[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 are 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. In 2021, additional restructuring costs totaling €3.1 million were recognized as an exceptional item in connection with the Transform for Growth efficiency program, which was first launched in the third quarter of 2020.

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 used by senior management to control the business.

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). This is calculated as follows:

ROCE[1]

€ million

	2021	2020
Total assets	1,290.1	1,180.5
Cash and cash equivalents	–36.1	– 64.7
Trade payables	–257.8	– 153.0
Other current and non-current liabilities	–66.5	– 60.0
Capital employed	**929.7**	**902.8**
Capital employed (average for the year)[2]	**916.3**	**918.8**
EBIT before exceptional items (operating profit/loss)	**37.2**	**–74.7**
ROCE (before exceptional items, %)	**4.1**	**– 8.1**

[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 sound 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 overriding aims is the continuous optimization of its management systems. This essentially involves the annual planning of all performance indicators specified here, broken down by segment and 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 the operational management of the segments.

We specify working capital targets 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

Global emissions legislation requirements are not the only factors which shape the DEUTZ Group's research and development activities. Another major influence is the steady march of climate change together with the related debate about reducing harmful greenhouse gases. The 2015 Paris Agreement aims to limit global warming to 1.5 degrees. In contrast to cars and commercial vehicles, there are currently no legal proposals or limits aimed at reducing the CO_2 emissions of mobile machinery. However, in order to achieve the Paris climate goals, DEUTZ believes it is also essential for the off-highway sector to play its part by reducing, as far as possible, the amount of harmful CO_2 emissions that this sector produces. This is why DEUTZ is actively pursuing the development of carbon-neutral drive systems in both the off-highway segment and marine applications.

Open to new technologies Different applications with varying power requirements call for a range of drive solutions. Construction equipment and agricultural machinery, for example, need a great deal more power than forklift trucks or lifting platforms. This is why DEUTZ is taking an open-minded approach to technology as it continues to develop its engine portfolio, essentially pursuing a two-pronged technology route towards carbon-neutral off-highway drive solutions. In the years ahead, internal combustion engines will continue to play a dominant role in certain mobile machinery applications. As regards these applications, our R&D activities are directed towards developing engines which can be run on alternative or sustainable energy sources such as hydrogen or e-fuels, emitting no CO_2. The second part of our two-pronged approach is to employ electric technology more widely.

Electric drive solutions The E-DEUTZ strategy, initiated in 2017, is playing an important role in the transition to carbon-neutral, off-highway drive solutions. The strategy aims to create a scalable product portfolio of electric drives and hybrid variants for specific customer requirements in off-highway and marine applications. Electric drive systems are carbon-neutral, whereas hybrid systems reduce total carbon emissions by downsizing engine capacity while maintaining overall system performance.

The E-DEUTZ development team is based at a number of sites. Over the next few years, it will be focusing on commercializing four basic drive systems for customer applications in the low and medium power output range, for example for airport ground support equipment, construction equipment, and agricultural machinery. In 2021, in step one of this process, DEUTZ developed an electric 360-volt drive system as far as the preproduction stage. An integral element of this system is a 42 kWh lithium-ion battery developed by DEUTZ subsidiary Futavis; it meets the safety technology requirements for electric-powered road vehicles in accordance with the ECE R100 directive. Market launch of the 360-volt drive system is planned for 2022. The second step is to develop a 48-volt base drive system and a 360-volt split system to the point of production readiness by the end of 2023.

In 2020, DEUTZ employees had sketched out the idea of a mobile E-DEUTZ charging station for electric-powered construction vehicles. In 2021, DEUTZ assembled the initial prototypes of the 'DEUTZ Powertree' and delivered them to our first pilot customer. Electric drive systems have a limited range and take longer to 'refuel' (recharge) than conventional internal combustion engines. The Powertree's integrated battery storage system means that machines can be charged on site even when there is no access to mains power. Downtimes can be reduced to a minimum thanks to the rapid-charge function that is capable of delivering up to 150 kW.

As regards the electric-powered marine sector, in 2021 DEUTZ subsidiary Torqeedo completely revamped its Cruise range of products for private and commercial applications in the low-voltage range (less than 50 volts). At 3, 6 and 12 kW, the new Cruise engines boast significantly more power, a thoroughly re-worked electrical design, a more rugged aluminum shaft with an integral fin, a particularly quiet and durable transmission plus integration into the TorqLink bus system for all 6 and 12 kW models without tiller functionality. Possible applications for the outboard and pod engines are zero-emission water taxis, pontoon and sailing boats and unmanned surface vessels used for data collection for research purposes.

As regards high-voltage drive systems, Torqeedo has introduced a new 50 kW sail drive, developed in collaboration with ZF Friedrichshafen AG; one of the vessels into which it has been installed together with a Deep Blue hybrid system is a new Groupe Beneteau Excess catamaran. At the METS trade fair in November 2021, Torqeedo, Groupe Beneteau and ZF jointly received the Boatbuilder Award for this project.

In 2021, Torqeedo also entered into collaborative development arrangements with Poseidon and Italdraghe. Working together with Poseidon, an all-electric and 360° rotatable rudder propeller was integrated into Torqeedo's Deep Blue electric high-voltage drive system. This drive, which can develop up to 65 kW, is particularly suitable for maneuvering passenger ferries on inland waterways and, as part of an initial project, it has already been successfully brought into regular service. In contrast, the aim of the joint project with Italdraghe is to develop a maneuverable electric-drive system for commercial shipping operating in ecologically sensitive inland and urban waterways. The system has been designed to allow zero-emission drive and directional thrust. Initial field operation is planned for 2022.

As regards its battery business, in 2021 the DEUTZ subsidiary Futavis continued to expand its processes and services in the areas of battery testing and functional safety. In view of the growing complexity of electronic and, in particular, programmable systems and components, functional safety, including in the off-highway segment, is of increasing importance. The 'Modular Automated Testing Environment' (MATE), which Futavis has developed as a product quality enhancement, is a software environment that minimizes the risk of potentially hazardous battery and battery management system malfunctions. The MATE platform also helps development processes to meet the requirements set out in the ISO 26262 automotive standard. The 'Futavis Safety Box' (S-Box) is another new development; from now on, it will form an addition to the E-DEUTZ battery toolkit and will also be used for external customers' batteries. When developing the S-Box, the main focus was directed towards the requirements for electrified off-highway applications which, as regards vibration, load profiles and operating environments, are more demanding than the requirements for road vehicles. The S-Box ensures increased safety when using batteries; in the event, for example, of overheating, excess current or severe vibration, all of which could result in short-circuiting or the risk of explosion, the battery will automatically switch off.

Further internal combustion engine developments In addition to electric drives, DEUTZ is pushing ahead with the development of internal combustion engines that use sustainable energy sources and can therefore be run on a carbon-neutral basis. One of these sustainable energy sources is hydrogen. In the third quarter of 2021, DEUTZ began development work on its first series-production-ready hydrogen engine which meets the EU's prescribed CO_2 **Zero Emission** limit. Agreement has been reached with a regional utility company that for the initial pilot the TCG 7.8 H2 will be employed in stationary equipment for power generation. The hydrogen engine in this instance will produce electricity in combination with a generator. The plan is for the TCG 7.8 H2 to go into full production at the end of 2024. DEUTZ has also signed a cooperation agreement with the German Aerospace Center (DLR) for a joint project focused on making construction sites more environmentally friendly. The aim of the project is to develop solutions for running construction-site vehicles and agricultural machinery on hydrogen.

Because commercial vehicles, tractors, and construction equipment are used for heavy-duty applications and are employed for long hours, they need a fuel with a high energy density and short refueling times. **E-fuels** may provide the answer. These include synthetic fuels such as paraffinic diesel fuels, produced on a renewable basis using electricity, water, and carbon dioxide (CO_2). The combustion of e-fuels produces the same level of harmful emissions as with conventional fuels. However, if the electricity used to make them is produced entirely from renewable sources and the necessary CO_2 is taken from the atmosphere or from biomass, then internal combustion engines can actually run on a carbon-neutral basis. In August 2021, DEUTZ approved all its model series that meet the EU V emissions standard for use with paraffinic diesel fuels. At the same time, the Company approved the majority of its latest-generation engines for biodiesel blends (biodiesel mixed with petroleum diesel). Using these alternative fuels reduces the carbon footprint of DEUTZ's engines and raises the prospect of making its engines carbon-neutral in the future by running them on 100 percent biodiesel or on renewably produced e-fuels.

Looking ahead, DEUTZ plans to close the performance gap in its 4 to 8 liter portfolio by introducing the TCD 5.2. This new 5.2 liter, four-cylinder diesel engine, capable of producing 170 kW, is intended to replace larger six-cylinder engines. A particular feature of this engine is its efficient **NOx** aftertreatment system. This obviates the need for exhaust gas recirculation, thus achieving lower fuel consumption due to improved combustion efficiency compared to engines which employ exhaust gas recirculation. The TCD 5.2 can be run on alternative fuels such as biodiesel and is also primed for hybrid operation thanks to an integral 48V electric motor option. In 2021, DEUTZ supplied the first prototypes for a range of customer applications. Series production is planned for 2022. Because of the high level of synergy with our existing 7.8 liter six-cylinder engine, this new development can be realized while keeping project costs comparatively low.

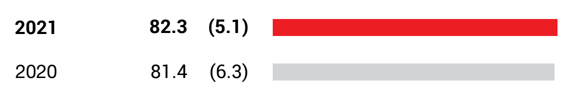
In 2021, DEUTZ introduced the TCD 9.0 and TCD 18.0 engines into its 9 to 18 liter segment. These engines can be employed, for example, in quarries, mines or environmental engineering applications

Development partnership with John Deere At the end of 2020, DEUTZ entered into a development partnership with John Deere Power Systems with a view to expanding its engine portfolio in the power range up to 130 kW. In addition to technical development work, this collaborative arrangement will also involve joint sales activity. Full-scale joint development work began in 2021. The first prototypes have already been taken into use and are demonstrating excellent consumption figures.

R&D spending Expenditure on research and development in 2021 amounted to €88.0 million, compared with €84.3 million in the prior year. After the deduction of grants received from development partners and subsidies, expenditure rose from €81.4 million in 2020 to €82.3 million. R&D spending was thus above the forecast range of €65 million to €75 million as a result of the increase in activities to expand the portfolio. The proportion of capitalized development expenditure after deducting grants amounted to €6.8 million (2020: €12.6 million). The R&D ratio after deducting grants decreased from 6.3 percent in the prior year to 5.1 percent in 2021 due to the unusually sharp increase in revenue.

Research and development expenditure (after deducting grants)

€ million (R&D ratio, %)



R&D spending by the DEUTZ Compact Engines segment after deducting grants came to €65.2 million (2020: €60.8 million) and that of the DEUTZ Customized Solutions segment came to €8.3 million (2020: €11.8 million). The Other segment's R&D spending after deducting grants amounted to €8.8 million (2020: €8.8 million).

PRODUCTION AND LOGISTICS

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

Whereas the production volume in 2020 fell to a very low level due to coronavirus, demand rose rapidly and noticeably over the course of 2021. At the same time, the ongoing pandemic, worldwide bottlenecks in the availability of materials, and major delays in the supply chain presented huge challenges for the operational units and the internal and external supplier network. See also 'Purchasing and procurement', p. 33 onward, and 'Economic and industry-specific environment', p. 35 onward. Despite this, production output at all sites rose significantly from 115,520 in 2020 to 166,103 DEUTZ engines[1] in 2021.

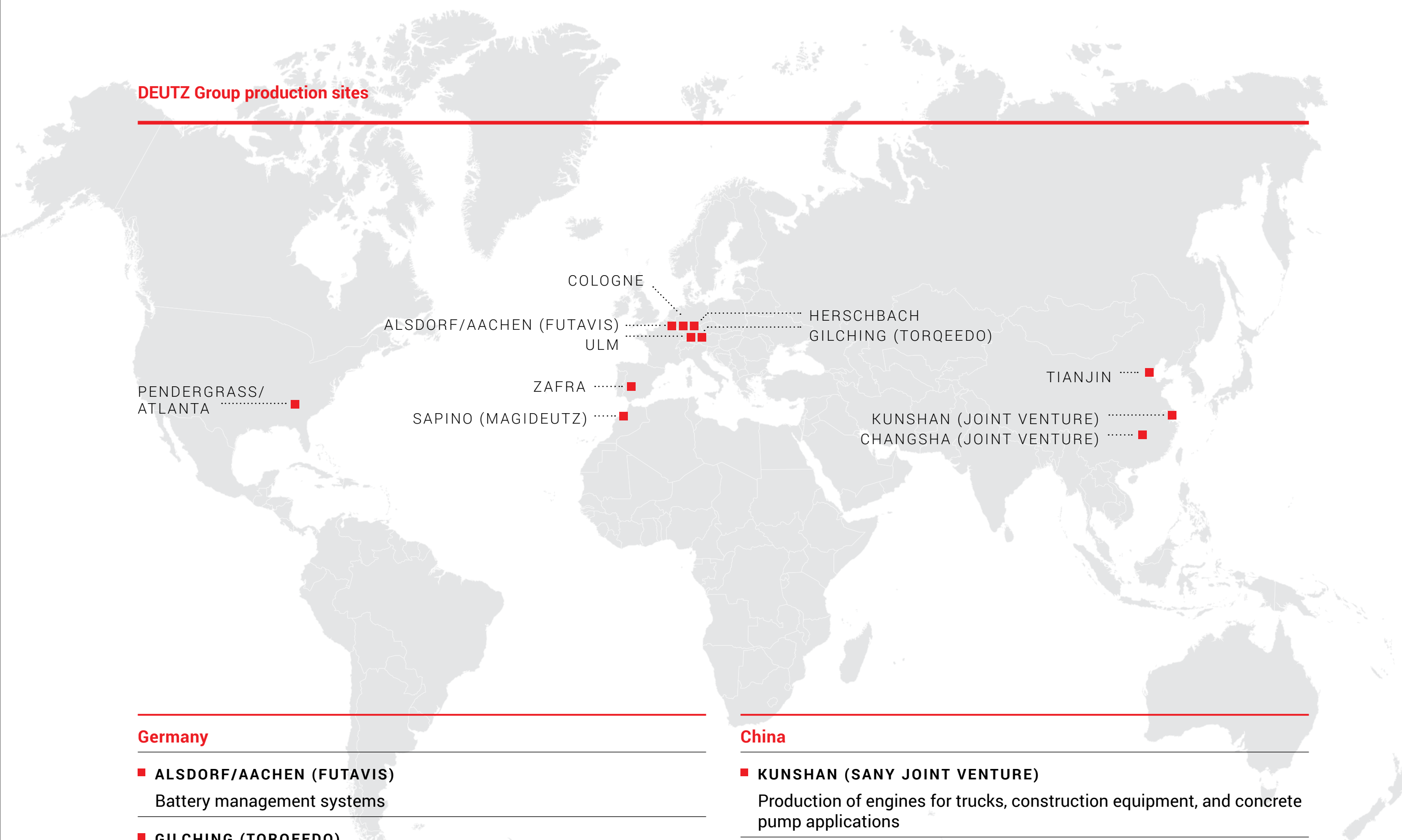
Undeterred by these operational challenges, DEUTZ continued to optimize its production processes and expand its global production network in 2021. In particular, the Company focused on developing a roadmap for optimizing global supply chain management, on initiating and implementing measures to improve efficiency, on digitalization applications and **Industry 4.0** applications, and on the expansion of the global production network in China.

DEUTZ improved overall efficiency at its German plants[2] by around 7 percent in 2021 by implementing measures to increase efficiency in various production units and maintaining tight control over staffing levels. A number of overhead structures were also adapted, making it easier to leverage synergies and to focus and combine responsibilities. This led to a significant improvement of the cost base.

Lean philosophy In 2021, DEUTZ added **gemba walks** to its established methods in order to further embed a **lean philosophy** within the Company. The aim of this approach is to continuously expand the network of managers and employees, make the most of existing expertise, and facilitate the transfer of knowledge in order to work together on optimizing the value streams in the various production areas. To strengthen the lean leadership culture at global level, various lean transformation training courses for internal specialists and managers took place again across the sites last year. In turn, managers provided basic lean training for their employees to prepare them for the path towards operational excellence.

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

DEUTZ Group production sites



Germany

- **ALSDORF/AACHEN (FUTAVIS)**
  Battery management systems
- **GILCHING (TORQEEDO)**
  Electric boat drives, complete e-marine drive systems
- **HERSCHBACH**
  Components plant for manufacturing and pre-assembly of complex add-on components
- **COLOGNE-PORZ (DEUTZ AG HEADQUARTERS)**
  Assembly plant for production engines with capacities of less than 4 liters and between 4 and 8 liters, center of excellence for camshafts and crankshafts
- **COLOGNE-KALK**
  Center of excellence for crankcase manufacturing
- **ULM**
  Small production runs for engine series due to be discontinued, Xchange engine manufacturing, small production runs for crankcases, crankshafts, and gearwheels

China

- **KUNSHAN (SANY JOINT VENTURE)**
  Production of engines for trucks, construction equipment, and concrete pump applications
- **CHANGSHA (SANY JOINT VENTURE)**
  New high-performance-engine assembly plant for SANY trucks and construction equipment on a greenfield site; production of engines for trucks, construction equipment, and concrete pump applications on a brownfield site
- **TIANJIN**
  Assembly engines with capacities of less than 4 liters and with capacities of 6 liters for applications in lifting platforms, in forklift trucks, and in small construction equipment as part of the local contract manufacturing alliance with BEINEI

Spain

- **ZAFRA**
  Center of excellence for the processing and pre-assembly of cylinder heads, crankcases for engines with capacities of less than 4 liters, conrods, and gearwheels

Morocco

- **SAPINO (MAGIDEUTZ)**
  Gensets

USA

- **PENDERGRASS/ATLANTA**
  Value-added production, Xchange engine remanufacturing

Optimization of global supply chain management In order to respond flexibly to the changing global situation, DEUTZ launched a three-stage project in 2020 as part of the restructuring of its supply chain. The first step was to develop a vision for a value chain geared to the needs of the future, followed in 2021 by the setting out of a roadmap for implementation. This comprehensive restructuring of the value chain is aimed at creating robust processes while still maintaining flexible structures. The objective is to add value for the customer and further improve the cost base by creating new supply models with defined completion stages, simplified workflows, and faster reaction times. The first projects, such as inviting tenders for a global, digital logistics platform, were launched in the fourth quarter of 2021 in collaboration with Purchasing and the DEUTZ IT department. The purpose of the platform will be to make the movement of goods from suppliers into the DEUTZ production network and other functions more transparent, thus allowing for greater control.

In 2021, the focus at Cologne-Porz, the largest site in the DEUTZ production network, was the bringing on stream of the new ultra-modern assembly line for sub-4 liter engines. This succeeded in stabilizing processes and achieving the planned efficiency gains. As a result, DEUTZ saw an increase in efficiency of around 13 percent in 2021 compared to the prior year. It is now possible to achieve the same output in two shifts that would have taken three shifts before. At the same time, DEUTZ improved delivery quality. The new actuation and documentation of fastening tasks, the redesign of the fault rectification process, and the leak detection measures, for example, produced a noticeable and enduring increase in quality standards.

The site in Ulm, which focuses on small-scale production runs, was able to maintain the production program at a stable level while further increasing revenue and earnings from exchange engines. In a separate hall area on the site, DEUTZ began setting up production of the E-DEUTZ Powertree charging station and providing staff training on this.

Capital expenditure within the scope of the global efficiency program In 2020, DEUTZ launched its Transform for Growth program across all sites in order to maintain its long-term competitiveness. See also 'Transform for Growth', p. 25, The measures it defines are aimed, for example, at optimizing the manufacturing costs of our finished products, reducing overheads, and increasing the level of automation and digitalization in DEUTZ plants. A number of investment projects were delivered or initiated in 2021 to achieve this:

At the headquarters in Cologne, capital expenditure of around €15 million was approved for a new assembly line for engines with capacities between 4 and 8 liters. The most notable aspect of the new line is its flexibility. Currently, two lines are in operation, but in the future it will be possible to produce all newer engine families in the 4 to 8 liter range on a single line. It is set to come on stream in 2023.

DEUTZ has also approved around €8 million for the shaft center at the Cologne-Porz site. The capital expenditure covers three automation projects using robot chains to supply a number of processing machines, four new pieces of machinery, and a new cleaning system. The project aims to significantly increase efficiency in crankshaft and camshaft production. The new machines are scheduled to commence operation in the second half of 2022.

DEUTZ approved two significant capital expenditure projects totaling around €7 million for the site in Herschbach. Some of the money will go towards a new machine for processing rocker arms, an integral element of all engines. This highly automated machine will replace three old machines in total and offer additional reserve capacity. The rest of the money will be invested in a new logistics hall in Herschbach with the aim of improving the efficiency of goods inward, storage, picking, and the provision of outgoing material at the plant in line with the latest lean principles. The new hall is scheduled to commence operations in 2023.

Industry 4.0 Between 2018 and 2021, around €4 million was invested in a new, digitalized production line for the manufacture of connecting rods at the DEUTZ Spain site in Zafra. The new manufacturing cell will make it possible to digitalize previously paper-based processes and use IT to connect them. Advanced analytics and artificial intelligence will enable the cell to monitor itself in real time, improving the quality of the conrods produced while providing better traceability and predictive maintenance of the line. In addition, the introduction of new collaborative robots (cobots) in manual workplaces has reduced the production costs of all conrods for sub-4 liter engines.

The digitalization of processes also continues elsewhere in the network of DEUTZ production sites. Since 2021, for example, all machine maintenance tasks and fault reports in production and assembly in Cologne have been processed via an app, which any maintenance technician can access and edit on a smartphone. This has resulted in fast response times, lean and transparent processes, and greater efficiency when it comes to the key task of maintaining and optimizing the production facilities. Other machinery and equipment was connected to a system for capturing process data and monitoring the operating state via innovative, low-cost LoRaWAN and IO-Link solutions. They enable real-time monitoring and resource-efficient, cost-optimized management of key paintshop parameters at the assembly plant in Porz.

Expansion of production capacity in China As part of its joint venture with SANY, DEUTZ integrated an existing SANY engine factory in Kunshan, China, into the network of DEUTZ production sites. In 2021, DEUTZ brought another production site on stream in an existing SANY hall near the SANY headquarters in Changsha. Here, larger 12 and 13 liter diesel engines are built for SANY trucks and construction vehicles. A new assembly plant for high-performance engines is also currently being constructed on a greenfield site not far from SANY's new truck plant in Changsha. The building, which was almost complete at the end of 2021, is scheduled to open toward the end of 2022 with a medium-term production capacity of up to 200,000 engines a year.

With regard to the contract manufacturing agreement with diesel engine maker BEINEI, DEUTZ took over and approved all production processes in 2021. Two engine series for lifting platforms, forklift trucks, and smaller construction equipment are manufactured at this new factory, which serves as a production hub for the Asian market. More than 500 DEUTZ engines have been built for local Chinese OEMs already. As the new China 4 emissions legislation for off-highway engines will come into force in 2022, local engine production will be ramped up to high volume in the current financial year. A total of around 10,000 new engines are scheduled to be built in Tianjin in 2022.

Optimization of production in the USA DEUTZ carried out several analyses and lean manufacturing projects at the plant in Pendergrass, USA, in 2021 with the aim of optimizing the supply chain and meeting the challenges of the labor market. The action plan that has been drawn up is designed to increase efficiency and profitability at the plant. Furthermore, the focus was on expanding and implementing flexible Xchange and value-added production to meet the complex and rapidly changing demands of the market.

PURCHASING AND PROCUREMENT

Ongoing development of supplier risk management The DEUTZ Group maintains business relationships with around 4,500 suppliers in more than 40 countries. With a total of nearly €1.2 billion in direct materials purchased annually worldwide, the Company's supply chain makes a significant contribution to its value creation process.

The primary aim of the overarching supplier risk management system is to avoid disruptions to supply by minimizing and managing risks and supply shortages. In order to identify potential risks at an early stage, Purchasing uses a digital information tool to continuously monitor more than 1,000 production component suppliers and suppliers of non-production items. This enables Purchasing to proactively take risk-mitigating measures such as building up backup inventories and/or switching to alternative suppliers.

In 2021, DEUTZ continued to broadened the scope of its existing supplier risk management system with the objective of steadily increasing the level of transparency. Previously, monitoring was restricted primarily to the suppliers of DEUTZ AG, but the aforementioned information tool now also covers the suppliers of the subsidiaries. In addition, the Company has initiated a pilot project to also include certain sub-suppliers.

Global supply bottlenecks and substantial delays in the supply chain in 2021 were enormously challenging not just for the production units but also for Purchasing as well as the supply chain function and its processes. At the same time, the rising prices of commodities, energy, and transport, particularly in the final quarter of the reporting period, led to direct and indirect cost increases on the procurement side.

DEUTZ had already strengthened its existing risk management system in 2020, when the coronavirus pandemic first broke out, in order to counteract supply bottlenecks. Measures that have been put in place to secure supplies include the greater use of existing second-source suppliers, the procurement of stocks of finished parts from suppliers in high-risk regions, the creation of increased inventory ranges, and the organization of special shipments.

Development of the global purchasing organization and strategy As the Company's subsidiaries are mainly sales companies, overall responsibility for supplier management, including the approval of production component suppliers, lies predominantly with DEUTZ AG as the executive parent company. DEUTZ intends to progressively optimize Group purchasing to the point where, in the medium term, all subsidiaries will be subject to the same processes that apply at DEUTZ AG. To this end, the Company set up a groupwide organizational structure for purchasing in 2021, and also established a new Purchasing Excellence department that took on global responsibility for the purchasing function's strategy, governance, processes, methods, and tools. It also launched the Purchasing Evolution initiative, leading to the initiation of additional cost reduction measures in all purchased item groups, many of which have already been implemented.

In 2020, DEUTZ had already formulated various strategic initiatives as part of the ongoing development of its global purchasing strategy. These concerned not only the broadening of the risk management system and quality-related issues, but also areas such as digitalization, materials compliance, and sustainability. For more information see the non-financial report – Supplier Management, p. 107 onward. In terms of digitalization, in 2021 DEUTZ implemented an IT-based tool that is able to provide a transparent overview of the global supplier base across all sites, while also allowing it to structure spending across the Group in a standardized way.

Sustainable procurement DEUTZ systematically manages its suppliers using a 'supplier cockpit', which it uses to monitor the performance of key suppliers, primarily from the perspective of the quality of the supplied components, lead times, availability, and commercial conditions. With the implementation of the groupwide sustainability strategy, however, the selection of suppliers is also going to be increasingly based on sustainability criteria. In addition to the existing supplier cockpit, DEUTZ also introduced a web-based assessment platform for global supply chains and a business partner compliance tool in 2020 in order to be able to query and evaluate various aspects of sustainability. DEUTZ initiated a digitalization process in 2021 with the aim of combining these previously stand-alone assessment platforms into a single supplier cockpit in the medium term. The objective is to ensure that, from the outset, the assessment of suppliers takes particular account of aspects such as respect for human rights, measures to combat corruption and/or bribery, and compliance with environmental and social standards. For further information see the non-financial report – Supplier Management, p. 107 onward. Since 2021, the aforementioned risk information tool has also been used to monitor potential sustainability risks in the supply chain. Using predefined data sources, the tool identifies any reports that pertain to relevant risks, for example in connection with human rights issues or labor practices, selects them and automatically forwards them to the appropriate employees in the purchasing department. This information is also incorporated into the system-based assessment of the general risk of working with that supplier.

The topic of sustainable procurement has gained added significance with the adoption of the Supply Chain Due Diligence Act in 2021. This act will come into effect in Germany on January 1, 2023, and is intended to prevent, minimize, or eliminate risks relating to human rights and the environment within the supply chain. In the second half of 2021, DEUTZ, under the direction of Purchasing, established a cross-departmental task force that is working on implementing the resulting requirements. From 2023 onwards, DEUTZ will report annually on the aforementioned issues and any relevant actions and related developments in its non-financial report. For further information see also the non-financial report – Supplier Management, p. 107 onward.

EMPLOYEES

Overview of the DEUTZ Group's workforce[1]

Headcount

	Dec. 31, 2021	Dec. 31, 2020
DEUTZ Group	**4,751**	**4,586**
Thereof		
In Germany	3,273	3,302
Outside Germany	1,478	1,284
Thereof		
Non-salaried employees	2,576	2,455
Salaried employees	2,083	2,022
Trainees	92	109
Thereof		
DEUTZ Compact Engines	3,892	3,747
DEUTZ Customized Solutions	610	622
Other[2]	249	217

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

DEUTZ employed 4,751[1] people worldwide as at December 31, 2021, which was 165 more than at the end of 2020.

The voluntary redundancy program launched on September 1, 2020 had been taken up by a total of 361 employees by the time that it finished on March 31, 2021. This led to 133 employees leaving the Company in the year under review. See also 'Transform for Growth', p. 25. Conversely, the noticeable increase in demand in 2021 led to a rise in employee numbers, particularly at the plants. New employees were also hired as part of regional growth initiatives, for example in China and the USA, and for the establishment of the Shared Service Center in Spain.

At around 69 percent, the bulk of the Group's workforce is based in Germany. Of the 3,273 employees in Germany, 2,473 work at the Company's headquarters in Cologne.

The number of temporary workers also increased from 70 to 401 because of the sharp year-on-year increase in production volume. They now make up around 8 percent of the total workforce.

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

MACROECONOMIC AND INDUSTRY-SPECIFIC ENVIRONMENT

ECONOMIC ENVIRONMENT

Global growth surges – coronavirus effects now almost completely canceled out Whereas 2020 was dominated by the negative impact of the coronavirus pandemic, the global economy noticeably recovered in 2021. The latest estimate from the International Monetary Fund (IMF)[2] shows a rise in global value creation of 5.9 percent. The last time the growth rate was that high was in 1973. Supply issues and new waves of coronavirus infections, particularly in the second half of the year, prevented an even stronger recovery. Thanks to various economic stimulus measures by individual governments and central banks, global trade recovered by 9.3 percent, compared to a drop of 8.2 percent in 2020.

GDP growth[1]

YoY change (%)

	2021	2020
Global	5.9	–3.1
Industrialized countries	5.0	–4.5
Eurozone	5.2	–6.4
Germany	2.7	–4.6
USA	5.6	–3.4
Emerging markets	6.5	–2.0
China	8.1	2.3

[1] IWF: World Economic Outlook Update, January 2022.

Whereas GDP in the industrialized countries increased by a total of 5.0 percent, the emerging markets experienced even stronger growth of 6.5 percent. And China, which is a key emerging market for DEUTZ and the only major national economy to see its GDP increase in 2020, saw an above-average growth rate of 8.1 percent.

[2] IWF: World Economic Outlook Update, January 2022.

PROCUREMENT MARKET

The procurement of components and commodities proved to be particularly challenging for participants in the global economy in 2021. This was primarily due to worldwide bottlenecks in the availability of materials, particularly electronics, plastic, and steel, which resulted in significant supply shortages in international markets. The catastrophic floods that hit Germany in July 2021 exacerbated what was already a challenging supply situation. At the same time, the recovery of the global economy and the resulting growth in demand for international freight and transport capacity led to significant delays in the supply chain.

Commodity prices The aforementioned shortages in supply led to surges in commodity prices in 2021. Compared with 2020, the prices of cast iron scrap and foundry scrap, for example, went up by over 60 percent and 112 percent respectively, while the 198 percent increase in the price of precious metals such as rhodium meant they were almost three times as expensive as in the prior year. Energy and transport prices also rose sharply.

INDUSTRY-SPECIFIC ENVIRONMENT

Diesel engine market Based on currently available market data, the majority of the individual markets in the off-highway segment relevant to DEUTZ grew in 2021 despite ongoing bottlenecks in the supply industry around the world and the impact of the coronavirus pandemic.

There was a sharp increase in unit sales in the construction equipment segment in 2021 relative to the low figure for the prior year. This was primarily driven by persistently strong economic growth and comprehensive government stimulus packages in North America and Europe.[1] Sales in the Chinese market for construction equipment returned to the high pre-lockdown levels over the course of 2020, and continued to grow in 2021, albeit at a significantly lower level than in previous years.[2]

Demand for material handling applications followed the trend in the construction industry. Unit sales of forklift trucks in North America and Europe were very encouraging in 2021 due to the strong economy. In China, sales of forklift trucks also increased significantly compared to the prior year,[2] while the rest of Asia saw similar growth in demand to that in Europe and North America too.[3] For lifting platforms and telehandlers, the strong economic situation and a sharp increase in fleet investment by the equipment leasing companies led to a substantial rise in unit sales.

Growth in the European agricultural machinery market in 2021 was slightly dampened by the impact of the coronavirus pandemic, but was positive overall. In North America, the persistently high demand for tractors, in particular, contributed to renewed market growth. In China, the structural and technological adjustments appear to have been mostly completed, leading to a lower, but still positive, rise in unit sales.[4]

The Chinese market for heavy duty trucks contracted overall in 2021, although unit sales remained high. The main reasons for this are the cuts in electricity and energy ordered by central government, local pandemic-related lockdowns, and the introduction of the CN6 emissions standard for heavy duty trucks in July 2021, which had prompted capital investment to be brought forward in 2020 and in the first half of 2021, in particular.[5]

[1] VDMA 'Construction equipment and building material machinery', January 2022.
[2] Chinese Construction Machinery Association 'CCMA Sales YTD 11-2021', January 2022.
[3] FEM 'World Industrial Truck Statistics Q4-2021', February 2022.
[4] VDMA 'Geschäftsklima und Marktentwicklung weltweit', January 2022.
[5] China Automotive Industry Association, January 2022.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

Following a successful first six months of the year, DEUTZ continued to benefit from the sustained market recovery in relevant customer industries in the second half of 2021. In contrast with the prior-year figure, which was exceptionally low due to coronavirus, the ongoing pandemic had hardly any negative impact on demand in 2021. However, the rate of growth was slowed down by global supply bottlenecks. See also 'Procurement market', p. 36.

In mid-September, DEUTZ again raised its full-year guidance as its business performance was better than expected overall.[1] See also 'Overall assessment for 2021', p. 48.

NEW ORDERS

DEUTZ Group: New orders

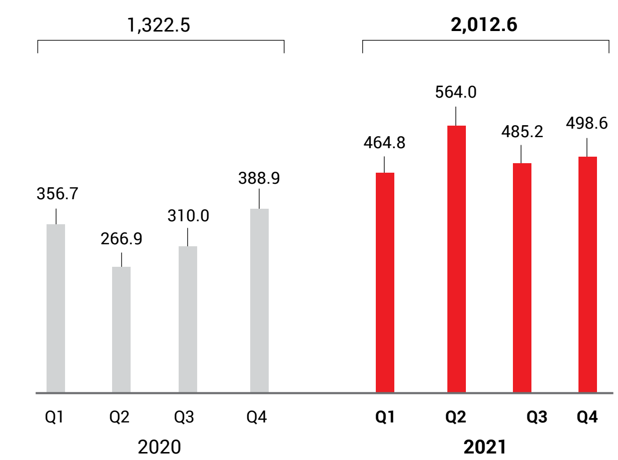
€ million

In 2021, new orders received by DEUTZ increased by 52.2 percent year on year to €2,012.6 million. This growth can be explained by the fact that customers were very willing to invest, reflected in double-digit percentage increases across all application segments and regions. The exceptionally strong rise was also attributable to one-off effects of spending brought forward in June and September, which amounted to more than €100 million. This situation came about mainly because of customer orders being brought forward in response both to price adjustments and to longer lead times.

In the service business, which is a key pillar of DEUTZ's growth strategy, new orders rose by 16.9 percent year on year to reach €412.1 million. Major contributors to this were parts sales and the business with DEUTZ Xchange engines in the Asia-Pacific and Americas regions.

DEUTZ Group: New orders by quarter

€ million



The volume of new orders in the fourth quarter jumped by 28.2 percent year on year to €498.6 million. All the main application segments contributed to this growth. In terms of regions, this increase was mainly attributable to the EMEA region. The Asia-Pacific region saw a fall, mainly as a result of the current weakness in the Chinese market. See also 'Industry-specific environment', p. 36.

As at December 31, 2021, orders on hand stood at €676.7 million (December 31, 2020: €269.0 million), which indicates continued growth. The proportion of orders on hand attributable to the service business stood at €35.7 million (December 31, 2020: €24.4 million).

UNIT SALES

DEUTZ Group: Unit sales

Units

With a total of 201,283 engines sold, the DEUTZ Group registered an increase in unit sales of 33.4 percent in the reporting period. The number of DEUTZ engines[2] sold rose by 32.9 percent to 160,882. Unit sales are thus within the most recent forecasts of between 155,000 and 170,000 DEUTZ engines.

[1] See the ad hoc disclosure dated September 13, 2021.

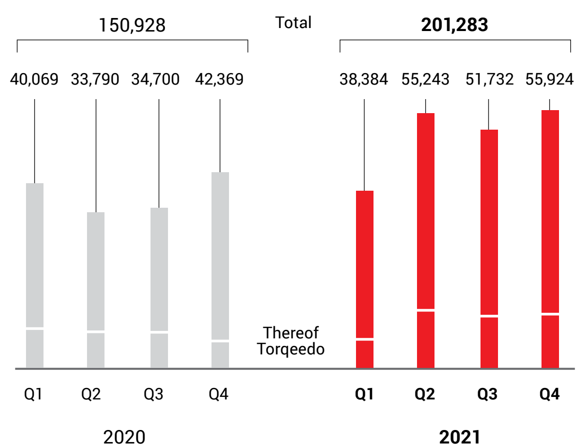
[2] Excluding electric boat drives from DEUTZ subsidiary Torqeedo.

Almost all application segments saw strong double-digit increases in unit sales with the exception of Stationary Equipment, which fell slightly short of the level in the prior-year period due to the discontinuation of older engine series. The EMEA region, which is currently DEUTZ's largest sales market, saw the sharpest rise in absolute terms. Unit sales in this region climbed by 35.8 percent, while unit sales in the Americas and Asia-Pacific regions grew by 41.0 percent and 22.4 percent respectively year on year.

DEUTZ subsidiary Torqeedo sold 40,401 electric boat drives in 2021. All regions contributed to a rise in unit sales of 35.1 percent compared to 2020, largely driven by higher demand in the OEM business.

DEUTZ Group: Unit sales by quarter

units



In the fourth quarter of 2021, unit sales across the Group were up 32.0 percent compared with the equivalent quarter of the prior year. All regions and application segments contributed to this increase with double-digit percentage growth. Unit sales of DEUTZ engines[1] rose by 22.1 percent to reach 44,609 engines sold. Over the same period, unit sales at Torqeedo almost doubled with an increase of 93.8 percent to reach 11,315 boat drives.

REVENUE

DEUTZ Group: Revenue

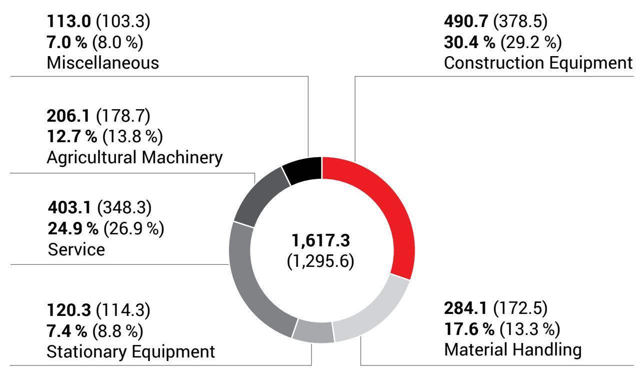
€ million

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

Reflecting the growth in unit sales, consolidated revenue increased by 24.8 percent to €1,617.3 million in 2021, reaching the lower end of the forecast range of €1.6 to €1.7 billion.[2] The lower rise in revenue, relative to the rise in unit sales, was the result of the disproportionately sharp increase in demand for engines with a capacity of less than 4 liters and the significantly higher proportion of electric boat drives.

DEUTZ Group: Revenue and proportion of revenue by application segment

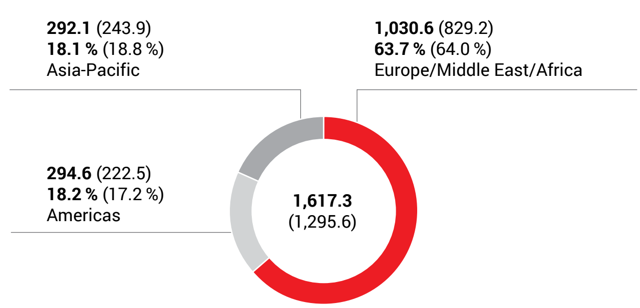
€ million (2020 figures)



All application segments registered growth compared to 2020, with Material Handling leading the way with a sharp rise of 64.7 percent. Service revenue swelled by 15.7 percent to €403.1 million, primarily due to the substantial growth of business from parts sales. This means that DEUTZ reached its revenue target of around €400 million for the service business in 2021.

DEUTZ Group: Revenue and proportion of revenue by region

€ million (2020 figures)

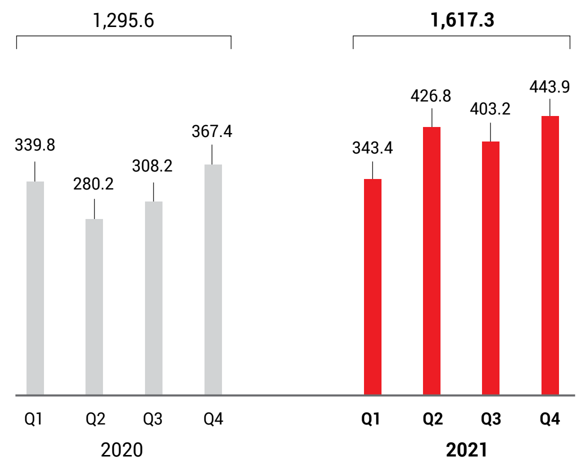


All regions contributed to the increase in revenue with double-digit growth rates. In absolute terms, the EMEA region, and particularly Germany and the rest of Europe, saw the highest rises. In China, the most important sales market for the regional growth strategy, DEUTZ advanced its revenue by 16.8 percent to €151.9 million[3] despite the current weakness in the market.

[2] See the ad hoc disclosure dated September 13, 2021.
[3] Excluding revenue from the joint venture with SANY.

DEUTZ Group: Revenue by quarter

€ million



Consolidated revenue amounted to €443.9 million in the fourth quarter of 2021, which was 20.8 percent more than in the corresponding period of 2020. All regions and all application segments contributed to the increase.

EARNINGS

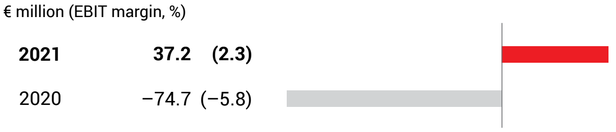
Overview of the DEUTZ Group's results of operations

€ million

	1–12/2021	1–12/2020	Change
Revenue	**1,617.3**	**1,295.6**	**24.8 %**
Cost of sales	–1,331.7	–1,105.9	20.4 %
Research and development costs	–90.9	–97.7	–7.0 %
Selling and administrative expenses	–164.8	–146.5	12.5 %
Other operating income	27.0	15.0	80.0 %
Other operating expenses	–22.4	–68.3	–67.2 %
Write-down of financial assets	–0.2	–1.3	84.6 %
Profit/loss on equity-accounted investments	–0.8	1.4	–
Other net investment income	0.6	1.1	–45.5 %
EBIT	**34.1**	**–106.6**	**–**
thereof exceptional items	–3.1	–31.9	90.3 %
Operating profit/loss (EBIT before exceptional items)	**37.2**	**–74.7**	**–**
Interest income	0.2	0.7	–71.4 %
Interest expense	–5.2	–4.3	20.9 %
Other finance costs	0.0	–0.4	–
Financial income, net	**–5.0**	**–4.0**	**–25.0 %**
Income taxes	9.1	3.0	203.3 %
Net income	**38.2**	**–107.6**	**–**

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

€ million (EBIT margin, %)



Operating profit DEUTZ generated an operating profit (EBIT before exceptional items) of €37.2 million in 2021, having reported an operating loss of €74.7 million in the previous year. The significant improvement compared with 2020 was primarily due to the sharp rise in revenue, the related economies of scale, and cost savings stemming from the restructuring and cost-cutting measures initiated. In 2020, the macroeconomic fallout from the coronavirus pandemic had led to a sharp fall in revenue, resulting in substantial diseconomies of scale. In the previous year, there had also been a heavy drag on operating profit from payments of €8.8 million made under continuation agreements with suppliers that were going through insolvency proceedings and from demand-related impairment losses of €17.2 million recognized on capitalized development projects and sales licenses. By contrast, operating profit in 2021 was boosted by reversals of impairment losses on a capitalized development project in a total amount of €4.4 million. However, the Group's operating profit was once again squeezed by the loss reported by DEUTZ subsidiary Torqeedo, which has not yet managed to break even.

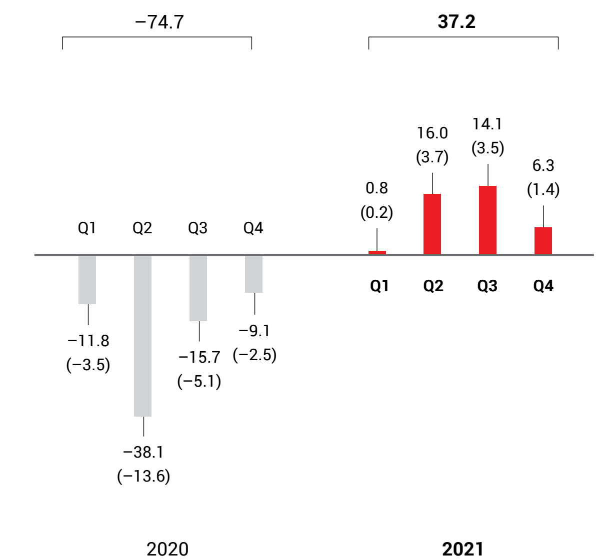
The EBIT margin before exceptional items rose from minus 5.8 percent in 2020 to 2.3 percent in the reporting year and was thus within the expected range of 2 percent to 3 percent.[1] Return on capital employed (ROCE before exceptional items),[2] which is one of our internal key performance indicators, improved from minus 8.1 percent to 4.0 percent in the same period.

The rising cost of commodities and materials had an adverse impact in 2021, especially in the final quarter of the year. These increases could not be passed on to customers in full due to the high level of orders on hand. Nonetheless, the trend was positive compared with the prior-year quarter, with an improvement from an operating loss of €9.1 million in the fourth quarter of 2020 to an operating profit of €6.3 million in the corresponding quarter of 2021, primarily as a result of the growth in the volume of business.

[1] See ad hoc disclosure dated September 13, 2021.
[2] 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 (EBIT before exceptional items) by quarter

€ million (EBIT margin, %)



In 2021, there were exceptional items of €3.1 million. These related to the Transform for Growth efficiency program and were the result of the adjustment of the provision for restructuring, which had been recognized for the first time in the previous year. In 2020, restructuring costs of €31.9 million had been recognized as an exceptional item in connection with the efficiency program. After taking exceptional items into account, EBIT for the year under review stood at €34.1 million (2020: minus €106.6 million).

Cost of sales The cost of sales rose to €1,331.7 million in 2021 as a result of the significant growth in the volume of business. This year-on-year increase of 20.4 percent was mainly attributable to the rise in the cost of materials. There were also increases in staff costs and expenses for temporary workers. The gross margin[1] advanced from 14.6 percent in 2020 to 17.7 percent in 2021.

Research and development costs In the year under review, research and development costs amounted to €90.9 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 decline of €6.8 million can largely be explained by the very high level of R&D costs in the previous year. The prior-year figure had included impairment losses on capitalized development expenditure totaling €10.8 million, whereas the figure for 2021 included the reversal of impairment losses in an amount of €4.4 million on a development project against which impairment losses had been recognized in previous years. The impairment losses were reversed due to more positive market expectations. Adjusted for the aforementioned impairment losses and reversals thereof, research and development costs went up by €8.4 million compared with 2020. This rise was mainly attributable to a reduction in capitalized development expenditure.

Other operating income Other operating income totaled €27.0 million in the reporting year. The year-on-year increase of €12.0 million was attributable, in particular, to higher foreign currency gains and the settlement reached with Torqeedo's former owners regarding compensation for losses incurred due to a product recall in 2019.

Other operating expenses Other operating expenses amounted to €22.4 million in 2021. The sharp fall of €45.9 million compared with 2020 largely related to restructuring costs in connection with the efficiency program. While the recognition of new provisions for these costs had reduced operating profit in 2020 by €31.9 million, in the reporting year there were expenses of just €3.1 million that arose as a result of adjusting the provision for restructuring. In addition, foreign currency losses arising on the translation of foreign currency positions were lower, as were provisions recognized for onerous contracts in relation to orders on hand.

Share of profit (loss) of equity-accounted investments Owing to the loss attributable to our Chinese joint venture Hunan DEUTZ Power Co., Ltd., the share of profit (loss) of equity-accounted investments declined by €2.2 million to a loss of €0.8 million.

Financial income, net Net finance costs deteriorated by €1.0 million to €5.0 million, primarily due to higher lease liabilities.

Income taxes Tax income totaling €9.1 million was recognized in 2021. The current tax expense rose by €4.6 million to €6.5 million in line with earnings. There was also deferred tax income of €15.6 million, mainly due to higher deferred tax assets in respect of tax loss carryforwards. This was primarily due to an upgraded earnings expectation for the upcoming five-year period in view of the economic situation.

Earnings per share Net income amounted to €38.2 million in 2021, following a net loss of €107.6 million reported in 2020. Earnings per share increased from minus €0.89 in 2020 to €0.32 in the reporting year. Adjusted for exceptional items, net income improved to €41.3 million (2020: net loss of €75.7 million) and adjusted earnings per share improved to €0.34 (2020: minus €0.63).

[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

	2021	2020
New orders		
DEUTZ Compact Engines	1,585.5	954.3
DEUTZ Customized Solutions	362.6	324.5
Other	67.5	46.4
Consolidation	–3.0	–2.7
Total	**2,012.6**	**1,322.5**
Unit sales (units)		
DEUTZ Compact Engines	143,622	102,054
DEUTZ Customized Solutions	17,260	18,980
Other	40,401	29,894
Consolidation	0	0
Total	**201,283**	**150,928**
Revenue		
DEUTZ Compact Engines	1,243.4	943.8
DEUTZ Customized Solutions	320.2	310.1
Other	56.7	44.4
Consolidation	–3.0	–2.7
Total	**1,617.3**	**1,295.6**
EBIT		
DEUTZ Compact Engines	12.4	–80.5
DEUTZ Customized Solutions	31.3	18.7
Other	–6.5	–12.9
Consolidation	0.0	0.0
Total	**37.2**	**–74.7**

DEUTZ COMPACT ENGINES (DCE)

DEUTZ Compact Engines

	2021	2020	Change
New orders (€ million)	1,585.5	954.3	66.1%
Unit sales (units)	143,622	102,054	40.7%
Revenue (€ million)	1,243.4	943.8	31.7%
EBIT (€ million)[1]	12.4	–80.5	–
EBIT margin (%)[1]	1.0	–8.5	+9.5 PP

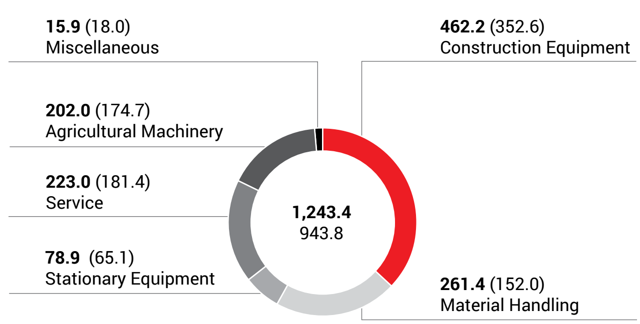
[1] before exceptional items.

New orders in the DEUTZ Compact Engines (DCE) segment jumped by 66.1 percent to €1,585.5 million in 2021. All application segments contributed to this increase with double-digit or triple-digit growth rates, with Construction Equipment and Material Handling making the strongest contributions. Orders on hand in the DCE segment more than doubled to €533.7 million, a rise of 191.5 percent in comparison with the end of 2020.

The segment's unit sales rose by 40.7 percent, with 143,622 engines sold. All regions and all of the main application segments recorded increases in unit sales.

DEUTZ Compact Engines: Revenue by application segment

€ million (2020 figures)



The DCE segment's revenue advanced by 31.7 percent to €1,243.4 million in the reporting year. All regions and, similarly to unit sales, all of the main application segments contributed to this increase, generating double-digit growth. The lower percentage rise in revenue compared with the increase in unit sales was predominantly due a shift in the product mix toward engines with a capacity of less than 4 liters.

In the fourth quarter of 2021, new orders climbed by 33.9 percent compared with the fourth quarter of 2020 to reach €393.4 million. Unit sales rose by 28.2 percent to 40,029 engines. As a result, revenue increased by 26.0 percent to €346.7 million.

Operating profit for the segment The operating profit for the segment (EBIT before exceptional items) improved by €92.9 million year on year to €12.4 million. This was due not only to the much higher volume of business and the associated economies of scale but also to cost savings resulting from the restructuring measures. In 2020, there had also been a drag on operating profit from payments made under continuation agreements with suppliers that were going through insolvency proceedings and, in particular, demand-related impairment losses recognized on capitalized development projects. By contrast, operating profit in 2021 was boosted by reversals of impairment losses on a capitalized development project in a total amount of €4.4 million. The EBIT margin before exceptional items stood at 1.0 percent in 2021, compared with minus 8.5 percent in 2020.

In the fourth quarter of 2021, operating profit improved by €18.9 million compared with the prior-year period to reach €6.0 million (Q4 2020: operating loss of €12.9 million) reflecting the increase in the volume of business. The EBIT margin also improved, from minus 4.7 percent in the fourth quarter of 2020 to 1.7 percent in the fourth quarter of 2021.

DEUTZ CUSTOMIZED SOLUTIONS (DCS)

DEUTZ Customized Solutions

	2021	2020	Change
New orders (€ million)	362.6	324.5	11.7%
Unit sales (units)	17,260	18,980	–9.1%
Revenue (€ million)	320.2	310.1	3.3%
EBIT (€ million)[1]	31.3	18.7	67.4%
EBIT margin (%)[1]	9.8	6.0	+3.8 pp

[1] before exceptional items.

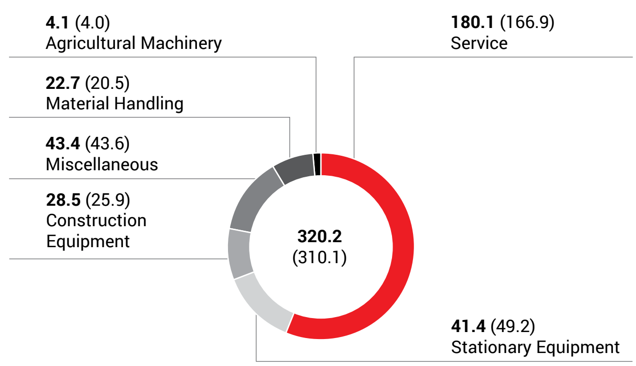
New orders in the DCS segment rose by 11.7 percent year on year to €362.6 million. With the exception of the Miscellaneous application segment, all of the main application segments recorded an increase in new orders. In absolute terms, the service business made the biggest contribution to the rise in new orders.

Orders on hand as at December 31, 2021 stood at €120.5 million, a significant increase of 60.2 percent compared with the same date a year earlier.

Contrary to the rise in new orders, the DCS segment's unit sales declined by 9.1 percent to 17,260 engines in the reporting year. The regional picture was mixed, with a rise in unit sales in the Americas but substantial year-on-year decreases in the EMEA and Asia-Pacific regions. The decline in EMEA, which was particularly pronounced in Europe, was largely due to the switch to newer Stage V engines in this region. In the Asia-Pacific region, however, the reduction in unit sales was attributable to the discontinuation of older engine series, which resulted in marked falls in unit sales compared with 2020, especially in the Stationary Equipment application segment. Material Handling was the only application segment to generate an increase in unit sales, and this was thanks to higher unit sales of older engine series in the Asia-Pacific and Americas regions.

DEUTZ Customized Solutions: Revenue by application segment

€ million (2020 figures)



Despite the reduction in unit sales, segment revenue rose by 3.3 percent year on year to €320.2 million. This opposing trend was due to a significant increase in CKD[1] and service business, which has no impact on unit sales. Revenue from the service business rose by 7.9 percent to €180.1 million, which meant that this business accounted for around 56 percent of the DCS segment's revenue.

In the fourth quarter of 2021, new orders in the DCS segment rose by 11.2 percent compared with the prior-year quarter to reach €92.5 million. Unit sales fell by 13.7 percent to 4,580 engines. The expansion of CKD[1] and service business was unable to fully make up for this decrease, which was primarily attributable to the Stationary Equipment and Miscellaneous application segments. Segment revenue therefore declined slightly to stand at €84 million, a fall of 0.4 percent compared with the fourth quarter of 2020.

Operating profit for the segment At €31.3 million, operating profit for the segment improved by €12.6 million compared with 2020, which had been adversely affected by impairment losses recognized on sales licenses, as well as by other factors. This improvement was mainly attributable to cost savings resulting from the restructuring program and to the higher degree of vertical integration after crankcase processing had been insourced.

[1] Completely knocked down: The engines in this business are shipped as a set of unassembled components.

In the fourth quarter of 2021, operating profit declined to €3.5 million (Q4 2020: €7.8 million). This was mainly attributable to the effects of an unfavorable product mix that resulted, in particular, from the lack of availability of some materials due to supply chain disruptions and the recognition of an impairment loss on sales licenses.

OTHER

Other

	2021	2020	Change
New orders (€ million)	67.5	46.4	45.5%
Unit sales (units)	40,401	29,894	35.1%
Revenue (€ million)	56.7	44.4	27.7%
EBIT (€ million)[1]	–6.5	–12.9	49.6%
EBIT margin (%)[1]	–11.5	–29.1	+17.6 pp

[1] before exceptional items.

The Other segment, which includes both the electric boat drive business of DEUTZ subsidiary Torqeedo and the battery specialist Futavis, also performed well in 2021. However, Torqeedo has not yet managed to break even. Thanks to increased demand in all regions, new orders jumped by 45.5 percent to €67.5 million. The segment's unit sales rose by 35.1 percent year on year to 40,401 electric motors owing to the significant expansion of the OEM business. Revenue advanced by 27.7 percent to €56.7 million, with all regions notching up double-digit growth rates. Futavis's revenue contribution came to around €1.9 million in 2021.

In the fourth quarter of 2021, new orders rose by 7.3 percent compared with the corresponding quarter of 2020 to reach €13.3 million. Unit sales almost doubled in the same period, surging by 93.8 percent to 11,315 electric motors. As a result, revenue climbed by 62.4 percent to €13.8 million.

Operating profit for the segment The Other segment reported an operating loss of €6.5 million in 2021. This year-on-year improvement of €6.4 million was mainly attributable to the growth in the volume of business at the Torqeedo companies and a compensation payment posted in the first quarter in connection with an out-of-court settlement. Reflecting the increased volume of business, operating profit for the fourth quarter of 2021 improved by €0.8 million year on year.

FINANCIAL POSITION

BASIC PRINCIPLES AND OBJECTIVES OF 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 a syndicated working capital facility amounting to €160 million that has been provided to the Company by a consortium of banks. As a safeguard against the impact of the coronavirus pandemic, DEUTZ had also been granted a €150 million credit line with the assistance of Germany's KfW development bank. DEUTZ repaid this 'COVID-19 tranche' in full and ahead of schedule at the beginning of September because of its improved business situation. The term of the credit line, which did not need to be used at any time, had originally been due to end in November 2021 and could have been extended for a further six months.

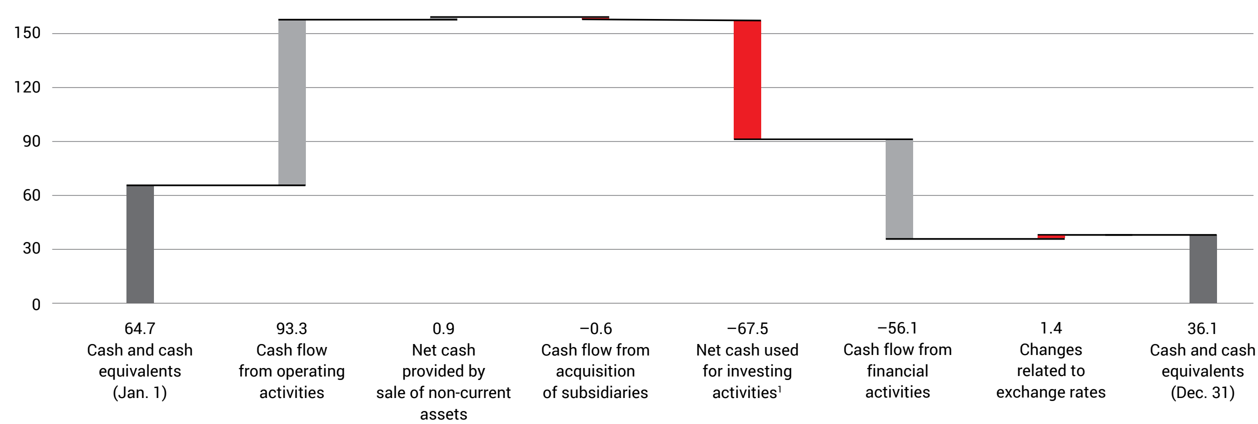
The remaining loan facility is an unsecured, floating-rate credit line that runs until June 2024. DEUTZ also has access to three bilateral credit lines, each in an amount of €25 million, which run until February 2023 and are also unsecured and floating-rate facilities. As at 31 December 2021, DEUTZ AG therefore had unused lines of credit totaling around €200 million at its disposal.

As part of its contractual agreements, DEUTZ has undertaken to comply with certain financial covenants. However, these do not place any restrictions on its 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, DEUTZ would approach its 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. 177.

DEUTZ also continues to have access to short-term credit lines and makes use of loans with subsidized interest rates.

DEUTZ Group: Change in cash and cash equivalents

€ million



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

The aforementioned funding instruments ensure that the Company 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 and systematic improvement of payment terms The sale of receivables, known as **factoring**, is an important way of optimizing receivables management. It enables DEUTZ to not only ensure sufficient liquidity but also improve its 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 it has granted.

The volume of sales of receivables totaled €134 million as at the balance sheet date, which was above the level a year earlier (December 31, 2020: €107 million) due to the improved business performance.

CASH FLOW

Overview of the DEUTZ Group's financial position

€ million	**2021**	2020	Change
Cash flow from operating activities	93.3	44.9	107.8 %
Cash flow from investing activities	−67.2	−76.2	11.8 %
Cash flow from financing activities	−56.1	41.5	–
Change in cash and cash equivalents	**−30.0**	**10.2**	**–**
Free cash flow[1] from continuing operations	**21.6**	**−35.8**	**–**
Cash and cash equivalents at Dec. 31	36.1	64.7	−44.2 %
Current and non-current interest-bearing financial debt at Dec. 31	115.8	148.5	−22.0 %
thereof lease liabilities	61.3	58.0	5.7 %
Net financial position[2] at Dec. 31	−79.7	−83.8	4.9 %

[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 sharp rise in the volume of business and in operating profit led to a very encouraging level of cash flow from operating activities, which amounted to a net cash inflow of €93.3 million. As a result of careful monitoring, working capital was kept virtually unchanged, despite the very sharp rise in the volume of business.

Net cash used for investing activities stood at €67.2 million in the reporting year. This year-on-year decline of €9.0 million was mainly due to reduced capital expenditure on property, plant and equipment and on intangible assets. Investing activities in respect of investments came to €5.8 million and related to the investment in Blue World Technologies, Aalborg, Denmark, of €3.8 million, a capital increase of €1.1 million at subsidiary DEUTZ Global Service Center, and the first tranche of the capital contribution to the joint venture DEUTZ Power Solution (Xuzhou) Co., Ltd., Xuzhou, China, of €1.0 million. DEUTZ established this joint venture with Beijing Fangda Diesel Engine Technology & Service Co., Ltd., Beijing, China, and SINOCHAIN Environment Protection Co., Ltd., Shanghai, China. The total investment in the new company is €2.0 million. The second tranche is to be paid within the next five years. DEUTZ holds 40 percent of the shares in the joint venture, which is accounted for using the equity method.

The main factors affecting cash flow from financing activities, which amounted to a net cash outflow of €56.1 million, were the repayment of a loan of our subsidiary DEUTZ Spain and the repayment of short-term lines of credit. In 2020, cash flow from financing activities had amounted to a net cash inflow of €41.5 million, primarily due to loans being taken out. DEUTZ AG currently has lines of credit totaling €235.0 million at its disposal. In 2021, DEUTZ AG repaid the KfW loan facility of €150.0 million ahead of schedule. It also agreed three further lines of credit, each in an amount of €25.0 million. Cash flow from financing activities included payments of interest and principal in connection with leases amounting to €1.4 million and €15.6 million respectively (2020: €1.1 million and €14.6 million respectively).

Thanks to the very good level of net cash provided by operating activities, free cash flow improved by €57.4 million to €21.6 million (2020: – €35.8 million). We therefore comfortably exceeded the neutral level of cash flow stated in our guidance, even though this had factored in a positive exceptional item in connection with payment of the final installment of the purchase consideration for the sale of land at our former Cologne-Deutz site, which was then postponed. The main reason for exceeding the guidance was the change in working capital, which increased only modestly after adjustment for currency effects, despite the significant increase in the volume of business.

Free cash flow in the fourth quarter of 2021 came to €6.4 million. The sharp fall compared with the fourth quarter of 2020 was due to the change in working capital in 2021, which was heavily affected by the pandemic.

These changes in cash flow during the reporting period caused cash and cash equivalents to decrease to €36.1 million. The net financial position improved slightly to –€79.7 million. As at December 31, 2021, the net financial position included lease liabilities totaling €61.3 million (December 31, 2020: €58.0 million).

CAPITAL EXPENDITURE

Capital expenditure (after deducting investment grants)

€ million

	2021	2020	Change
Property, plant and equipment	61.8	80.4	–18.6
of which right-of-use assets for leases under IFRS 16	17.7	32.4	–14.7
Property, plant and equipment (excluding right-of-use assets under IFRS 16)	44.1	48.0	–3.9
Intangible assets	10.7	23.9	–13.2
	72.5	104.3	–31.8

Total capital expenditure in 2021 on property, plant and equipment and on intangible assets after deducting investment grants, and including capitalization of research and development expenditures, was significantly below the prior-year level.

Additions to property, plant and equipment were mainly in connection with replacement investment in tools, equipment, and machinery. DEUTZ also invested in testing equipment for new drive systems and in IT equipment.

The much lower level of capital expenditure on right-of-use assets was primarily attributable to the very high level of capital expenditure in the previous year, which had been influenced by an agreement entered into with Chinese manufacturer BEINEI to make DEUTZ diesel engines for the local market and by a number of extensions of property leases. The additions in 2021 mainly related to property leases and to furniture and fixtures.

Capital expenditure on intangible assets was mainly in connection with the development of the new 5.2 engine series.

The bulk of the total capital expenditure after deducting investment grants – €61.6 million – was invested in the DEUTZ Compact Engines segment (2020: €87.0 million). Capital expenditure in the DEUTZ Customized Solutions segment stood at €7.1 million (2020: €13.8 million). Capital expenditure in the Other segment amounted to €3.8 million (2020: €3.6 million). This related to capital expenditure by Torqeedo companies and by Futavis GmbH.

NET ASSETS

DEUTZ Group: overview of net assets

€ million

	Dec. 31, 2021	Dec. 31, 2020	Change
Non-current assets	696.8	687.8	1.3 %
thereof right-of-use assets in connection with leases	57.4	57.3	0.2 %
Current assets	593.3	492.7	20.4 %
Total assets	**1,290.1**	**1,180.5**	**9.3 %**
Equity	588.4	535.2	9.9 %
Non-current liabilities	214.7	250.8	–14.4 %
thereof lease liabilities	45.4	44.0	3.2 %
Current liabilities	487.0	394.5	23.4 %
thereof lease liabilities	15.9	14.0	13.6 %
Total equity and liabilities	**1,290.1**	**1,180.5**	**9.3 %**
Working capital[1] (€ million)	253.2	235.0	7.7 %
Working capital ratio[2] (Dec. 31, %)	15.7	18.1	–2.4 pp
Working capital ratio[3] (average, %)	15.5	21.8	–6.3 pp
Equity ratio[4] (%)	**45.6**	**45.3**	**+0.3 pp**

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

Assets Non-current assets stood at €696.8 million as at December 31, 2021, a year-on-year rise of €9.0 million. This was largely attributable to the €14.4 million increase in deferred tax assets, which was driven by better opportunities to utilize tax loss carryforwards in the upcoming five-year period. Other financial assets went up too, mainly due to the investment of €3.8 million in Blue World Technologies, Aalborg, Denmark. There was also a rise in equity-accounted investments, primarily because of the currency-related rise in the value of the equity investment in the joint venture Hunan DEUTZ Power Co., Ltd. and the joint venture DEUTZ Power Solution (Xuzhou) Co., Ltd., Xuzhou, China, which was founded by DEUTZ with Beijing Fangda Diesel Engine Technology & Service Co., Ltd., Beijing, China, and SINOCHAIN Environment Protection Co., Ltd., Shanghai, China. DEUTZ holds 40 percent of the shares in this new company. By contrast, intangible assets decreased. This was because capitalized development expenditure was significantly lower than amortization in the period.

The increase in current assets was, due, in particular, to higher inventories and trade receivables.

Working Capital Inventories, trade receivables, and trade payables rose sharply due to the significant growth in the volume of business and the resulting adjustment to production and procurement activities. Working capital increased by €18.2 million overall. The average working capital ratio fell from 21.8 percent to 15.5 percent owing to the increase in revenue and careful management of working capital.

Equity As at December 31, 2021, equity had risen to €588.4 million because of the net income generated in the reporting year. The equity ratio increased slightly to 45.6 percent (December 31, 2020: 45.3 percent) and thus remains well above our long-term target of more than 40 percent.

Liabilities The fall in non-current liabilities was primarily due to the reduction in provisions for pensions and other post-retirement benefits. This can be explained by scheduled pension payments and by actuarial gains (recognized in other comprehensive income) resulting from higher pension discount rates. Furthermore, scheduled repayments led to a drop in liabilities to banks at our subsidiary DEUTZ Spain. The rise in current liabilities was mainly attributable to the increase in trade payables on the back of the growth in the volume of business. By contrast, liabilities to banks declined due to the reduced drawdown of short-term lines of credit.

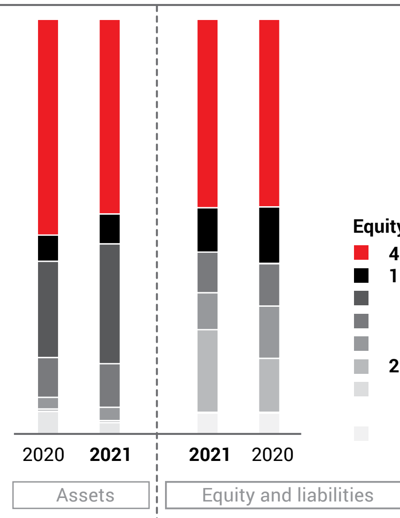
NET ASSETS | GROUP MANAGEMENT REPORT

DEUTZ Group: Balance sheet structure

% (2020 figures)

Assets

47.1	(52.0)	Non-current assets
6.9	(6.3)	Deferred tax assets
29.1	(23.2)	Inventories
10.5	(9.6)	Trade receivables
3.1	(2.8)	Other receivables and assets
0.5	(0.6)	Receivables in respect of tax refunds
2.8	(5.5)	Cash and cash equivalents



Equity and liabilities

45.6	(45.2)	Equity
10.7	(13.6)	Pension provisions
0.1	(0.1)	Deferred tax liabilities
9.2	(10.2)	Other provisions
9.0	(12.6)	Financial liabilities
20.0	(13.0)	Trade payables
0.2	(0.2)	Liabilities arising from income taxes
5.2	(5.1)	Other liabilities

OVERALL ASSESSMENT FOR 2021

Target/actual comparison for 2021

	Actual 2020	Original guidance in March 2021[1]	Adjustment of the guidance in April 2021[2]	Adjustment of the guidance in September 2021[3]	**Actual 2021**
Unit sales of DEUTZ engines[4]	121,034	At least 130,000	140,000 to 155,000	155,000 to 170,000	160,882
Revenue	€1.3 billion	At least €1.4 billion	€1.5 billion to €1.6 billion	€1.6 billion to €1.7 billion	€1.63 billion
EBIT margin before exceptional items	–5.8 %	At least break even	1.0 % to 2.0 %	2.0 % to 3.0 %	2.3 %
R&D expenditure (after deducting grants)[5]	€81.4 million	€65 million to €75 million	–	–	€82.3 million
Capital expenditure[6] (after deducting grants)[5]	€91.7 million	€75 million to €85 million	–	–	€65.7 million
Free cash flow[7]	–€35.8 million	Negative low– to mid–double–digit million euro amount	–	Neutral	€21.6 million
Average working capital ratio[8]	21.8 %	20 % to 21 %	–	–	15.5 %
Equity ratio[9]	45.3 %	Well above 40 percent	–	–	45.6 %

[1] Published in the 2020 annual report on March 18, 2021.
[2] See the ad hoc disclosure dated April 19, 2021.
[3] See the ad hoc disclosure dated September 13, 2021.
[4] Excluding electric boat drives from DEUTZ subsidiary Torqeedo.
[5] After deducting grants from development partners and subsidies.
[6] Capital expenditure on property, plant and equipment (including right-of-use assets in connection with leases) and intangible assets, excluding capitalization of research and development expenditure.
[7] Cash flow from operating activities and from investing activities less interest expense.
[8] Average working capital at the four quarterly reporting dates divided by revenue for the previous twelve months.
[9] Equity divided by total equity and liabilities.

DEUTZ made a better start to 2021 than originally expected. In mid-April 2021, it therefore initially raised the guidance for unit sales, revenue, and the EBIT margin before exceptional items that it had originally published in the 2020 annual report. Over the course of the year, demand continued to pick up strongly across all application segments and the Company's earnings performance improved significantly. This prompted DEUTZ to raise its guidance again in mid-September.

The unit sales, revenue, and EBIT margin before exceptional items achieved in 2021 were within the target ranges set out in the most recent guidance, although the picture was mixed. An increase in activities aimed at expanding the portfolio meant that R&D expenditure at €82.3 million was above the expected range of €65 million to €75 million. By contrast, capital expenditure (after deducting grants) amounted to €65.7 million, which was significantly lower than the anticipated range of €75 million to €85 million. This was due to the postponement of capital expenditure projects, particularly in the areas of production and logistics. Free cash flow in 2021 was substantially better than predicted. A neutral level had been expected, but it ended up in positive territory at €21.6 million. The main reason for this was the change in working capital, which held steady at the prior-year level despite the significant increase in the volume of business. Consequently, the average working capital ratio stood at 15.5 percent thanks to rigorous management of working capital, compared with an anticipated ratio in the range of 20 percent to 21 percent. The equity ratio of 45.6 percent was at the expected level of well above 40 percent.

The forecast for 2021 as a whole that was published in March was revised upwards on two occasions due to the better-than-expected business performance over the course of the year. The DEUTZ Board of Management is therefore very satisfied with how the business performed, not least because of the challenging supply chain situation it faced.

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 42 companies (2020: 39 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 'Shareholdings of DEUTZ AG', p. 189 onward, 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 also 'Business performance in the DEUTZ Group', p. 37 onward.

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 control system for the DEUTZ Group is described in this combined management report. See also 'Internal control system', p. 26 onward.

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)	**38.2**
Consolidation of equity investments	2.5
DEUTZ AG income (IFRS)	**40.7**
Material differences due to different financial reporting standards	
Recognition of development expenditure	6.3
Measurement of provisions for pensions and other post-retirement benefits	–5.8
Subsequent adjustment of the acquisition cost for the investments	–1.3
Measurement of provisions for pre-retirement part-time employment	–0.8
Measurement of inventories	0.8
Recognition of deferred taxes	–0.3
Other differences relating to the financial reporting standards	0.4
DEUTZ AG net income (HGB)	**40.0**

Overview of DEUTZ AG's results of operations

€ million	**2021**	2020	Change
Revenue	**1,405.2**	**1,085.2**	**320.0**
Cost of sales	–1,219.3	–997.8	–221.5
Research and development costs	–76.4	–72.3	–4.1
Selling and administrative expenses	–84.6	–79.0	–5.6
Other operating income	32.4	31.6	0.8
Other operating expenses	–20.4	–67.3	46.9
Net investment income	–0.6	4.6	–5.2
Write-downs of investments	0.0	–19.6	19.6
Operating profit (EBIT)	**36.3**	**–114.6**	**150.9**
Interest expenses, net	–4.0	–3.6	–0.4
Income taxes	8.2	1.1	7.1
Other taxes	–0.5	–0.5	0.0
Net income	**40.0**	**–117.6**	**157.6**

Revenue DEUTZ AG generated revenue of €1,405.2 million in 2021. The significant year-on-year increase of 29.5 percent was mainly due to the very low prior-year figure of €1,085.2 million, which had been impacted by the coronavirus pandemic. All application segments contributed to this growth, with the most notable increases registered for Material Handling (up by 79.6 percent to €247.1 million), Construction Equipment (up by 33.0 percent to €473.9 million), Stationary Equipment (up by 22.2 percent to €109.6 million), and Agricultural Machinery (up by 16.4 percent to €205.6 million). The high-margin service business generated revenue of €309.8 million, representing growth of 20.5 percent that was also very healthy and that was achieved despite a comparatively small decline of 3.5 percent in 2020. In the regional breakdown, the most pronounced increases in revenue were recorded in the Americas (up by 70.5 percent to €218.8 million) and in the EMEA region (up by 24.5 percent to €930.9 million). In the Asia-Pacific region, revenue went up by 22.3 percent to €255.5 million.

Earnings performance DEUTZ AG reported an operating profit (EBIT) of €36.3 million in 2021. This marked year-on-year improvement was mainly attributable to the significant growth in the volume of business and the associated economies of scale. Moreover, the prior-year figure had been weighed down by a €3.1 million adjustment to the provision for restructuring. In 2020, there had also been a heavy drag on operating profit from coronavirus-related diseconomies of scale and from restructuring costs of €31.9 million in connection with the Transform for Growth efficiency program, See also 'Transform for Growth', p 25, write-downs on investments of €19.6 million, impairment losses on capitalized development projects and sales licenses of €13.3 million, and payments of €8.8 million made under continuation agreements with suppliers going through insolvency proceedings.

Cost of sales DEUTZ AG's cost of sales came to €1,219.3 million in 2021. The year-on-year increase was mainly attributable to the volume-related rise in the cost of materials and staff costs. The gross margin[1] improved sharply from 8.1 percent to 13.2 percent thanks to economies of scale.

Other operating expenses Other operating expenses declined by €46.9 million year on year to €20.4 million. This sharp fall predominantly related to restructuring costs in connection with the efficiency program. While the recognition of new provisions for these costs had reduced operating profit by €31.9 million in 2020, there were expenses of €3.1 million in 2021 that arose as a result of adjusting the provision for restructuring. Furthermore, the addition to provisions for onerous contracts in respect of orders on hand and foreign currency losses on the translation of foreign currency positions were both lower than in 2020.

Income taxes Tax income totaling €8.2 million was recognized in 2021. The current tax expense rose by €1.6 million to €2.4 million. There was also deferred tax income of €10.6 million owing to higher tax assets recognized on loss carryforwards. This was primarily due to an upgraded earnings expectation for the upcoming five-year period in view of the economic situation.

Net income As a result of the business performance described above, net income for 2021 amounted to €40.0 million, which was in line with our forecast for an amount in the mid-double-digit millions of euros.

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 also 'Financial position of the DEUTZ Group', p. 43 onward.

Overview of DEUTZ AG's financial position

€ million

	2021	2020	Change
Cash flow from operating activities	64.0	24.5	39.5
Cash flow from investing activities	–45.2	–58.0	12.8
Cash flow from financing activities	–32.1	45.0	–77.1
Change in cash and cash equivalents	–13.3	11.5	–24.8
Free cash flow[1]	17.3	–34.3	51.6
Cash and cash equivalents at Dec. 31	15.4	28.7	–13.3

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

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

Liquidity The sharp rise in operating profit on the back of the growth in business resulted in a significant year-on-year improvement of €39.5 million in cash flow from operating activities. Net cash used for investing activities was €12.8 million lower than in 2020. This decrease was primarily attributable to reduced capital expenditure on property, plant and equipment and on intangible assets. Cash flow from investing activities also included the payment of €3.8 million for the first tranche of the investment in Blue World Technologies, Aalborg, Denmark. The total investment, for an 11.91 percent stake in this company will be €7.5 million. The second tranche is expected to be acquired in the first half of 2022 once official approval has been granted. In addition, a capital increase of €1.1 million was carried out at the subsidiary established last year, DEUTZ Global Service Center, Zafra, Spain. These payments were partly offset by the repayment, in an amount of €4.0 million, of a long-term loan to our subsidiary DEUTZ Spain. The main factor affecting cash flow from financing activities was the repayment of short-term lines of credit. DEUTZ AG currently has lines of credit totaling €235.0 million at its disposal. In 2021, DEUTZ AG repaid its KfW loan facility of €150.0 million, which was not used at any time, ahead of schedule. It also agreed three further lines of credit, each in an amount of €25.0 million. Thanks to the significantly better level of operating profit and lower level of capital expenditure, free cash flow improved by €51.6 million.

Capital expenditure After deducting investment grants, DEUTZ AG's capital expenditure in 2021 amounted to a total of €41.8 million (2020: €59.9 million). This was broken down into €28.1 million (2020: €35.4 million) on property, plant and equipment, €8.8 million (2020: €16.0 million) on intangible assets, and €4.9 million (2020: €8.5 million) on investments. Additions to property, plant and equipment were mainly in connection with replacement investment in tools, equipment, and machinery. DEUTZ also invested in testing equipment for new drive systems and in IT equipment. Capital expenditure on intangible assets was mainly in connection with the development of the new 5.2 engine series. Additions to investments primarily related to the investment in Blue World Technologies of €3.8 million and the capital increase of €1.1 million at the subsidiary DEUTZ Global Service Center.

NET ASSETS

Overview of DEUTZ AG's net assets

€ million

	Dec. 31, 2021	Dec. 31, 2020	Change
Non-current assets	629.0	646.3	–17.3
Current assets	442.7	351.2	91.5
Prepaid expenses	5.2	2.5	2.7
Deferred tax assets	82.5	71.9	10.6
Total assets	**1,159.4**	**1,071.9**	**87.5**
Equity	612.8	572.8	40.0
Provisions	280.9	275.6	5.3
Liabilities	264.5	222.3	42.2
Deferred income	1.2	1.2	0.0
Total equity and liabilities	**1,159.4**	**1,071.9**	**87.5**
Working capital[1] (€ million)	51.1	79.2	–28.1
Working capital ratio (Dec. 31, %)	3.6	7.3	–3.7
Equity ratio[2] (%)	52.9	53.4	–0.5

[1] Working capital: inventories plus trade receivables less trade payables.
[2] Equity ratio: equity/total equity and liabilities.

Non-current assets Compared with the end of 2020, non-current assets were down by €17.3 million. This was largely attributable to the fact that depreciation and amortization on property, plant and equipment and on intangible assets was higher than the corresponding capital expenditure. Disposals amounted to €10.8 million and mainly related to assets loaned to subsidiaries and software licenses.

Current assets The sharp rise in current assets primarily resulted from the growth in inventories and in receivables due from affiliated companies as a result of the significantly increased volume of business.

Working capital Working capital stood at €51.1 million as at December 31, 2021, which was €28.1 million lower than the level reported a year earlier. The decrease can mainly be explained by the rise in trade payables. Although inventories increased on the back of the larger volume of business, the increase was on a smaller scale. The working capital ratio as at the balance sheet date fell to 3.6 percent, partly due to the jump in revenue (December 31, 2020: 7.3 percent).

Equity ratio Owing to the net income generated in the reporting year, equity advanced to €612.8 million, an increase of €40.0 million. At 52.9 percent, the equity ratio was down slightly at the end of the year due to the rise in total assets.

Liabilities The main reason for the increase in liabilities of €42.2 million was the growth of trade payables on the back of the significant rise in the volume of business. By contrast, liabilities to banks declined due to the reduced drawdown of short-term lines of credit.

Provisions The increase in provisions was primarily attributable to the growth of personnel provisions in line with earnings and higher provisions for order-related losses that can essentially be explained by the rise in orders on hand. The increase was partly offset by utilization of the provision for restructuring as planned.

EMPLOYEES

DEUTZ AG employed 3,080 people as at December 31, 2021, which was 59 fewer than at the end of 2020. By contrast, the number of temporary workers rose by 245. In 2020, the number of temporary workers had fallen to 70 owing to the pandemic. See also 'Employees', p. 35.

From a segment perspective, DEUTZ Compact Engines employed 2,640 people as at December 31, 2021, 26 fewer than it had employed a year earlier. The number of employees at DEUTZ Customized Solutions was 440, which was down by 33 compared with the end of 2020.

DEUTZ AG: Employees

Headcount

	Dec. 31, 2021	Dec. 31, 2020
Cologne	2,473	2,509
Ulm	448	473
Other	159	157
Total	**3,080**	**3,139**

RISK AND OPPORTUNITY REPORT

DEUTZ 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. 78 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 also 'Risk report of the DEUTZ Group', p. 78 onward.

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 also 'Internal control system', p. 26 onward.

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 2022 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 2022, we expect to achieve net income in the mid-double-digit millions of euros and therefore on a par with the net income achieved in 2021. This is in anticipation of a further improvement in market conditions and the impact of the cost-cutting measures under the efficiency program. See also 'Outlook for the DEUTZ Group', p. 85 onward.

For information about events after the reporting period, please see note 30 on page 190 of the notes to the consolidated financial statements.

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 90 onward of the annual report and to our website www.deutz.com/nfb2021/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 pages 212 onward of the annual report and to our website www.deutz.com/ezu2021/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 2021. As at December 31, 2021, 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 2021, 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 shareholders 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 a syndicated cash credit line of €160 million. 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. A further bilateral credit agreement covering a sum of €25 million stipulates that, in the event of a change of control, a mutually acceptable arrangement must be reached regarding the continuation of the credit agreement, if necessary under different terms. 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 Board of Management members concluded 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 (DCGK) do not, in accordance with the suggestion in article G.14 DCGK, provide for any termination benefits if the service contract is ended prematurely as the result of a change of control.

The previous 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 See 'Notes to the consolidated financial statements', p. 190, for more information 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. Since 2021, a new LTI has been in use whose structure reflects that of the LTI used for the Board of Management and no longer contains such a provision. This LTI applies to new and existing members of the highest level of senior management. 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 AND 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 REPORT OF DEUTZ AG PURSUANT TO SECTION 162 AKTG

REMUNERATION REPORT OF DEUTZ AG PURSUANT TO SECTION 162 AKTG

The remuneration report provides details of the remuneration granted and owed to former and current members of the Board of Management and Supervisory Board of DEUTZ AG in 2021. It meets the requirements of section 162 of the German Stock Corporation Act (AktG).

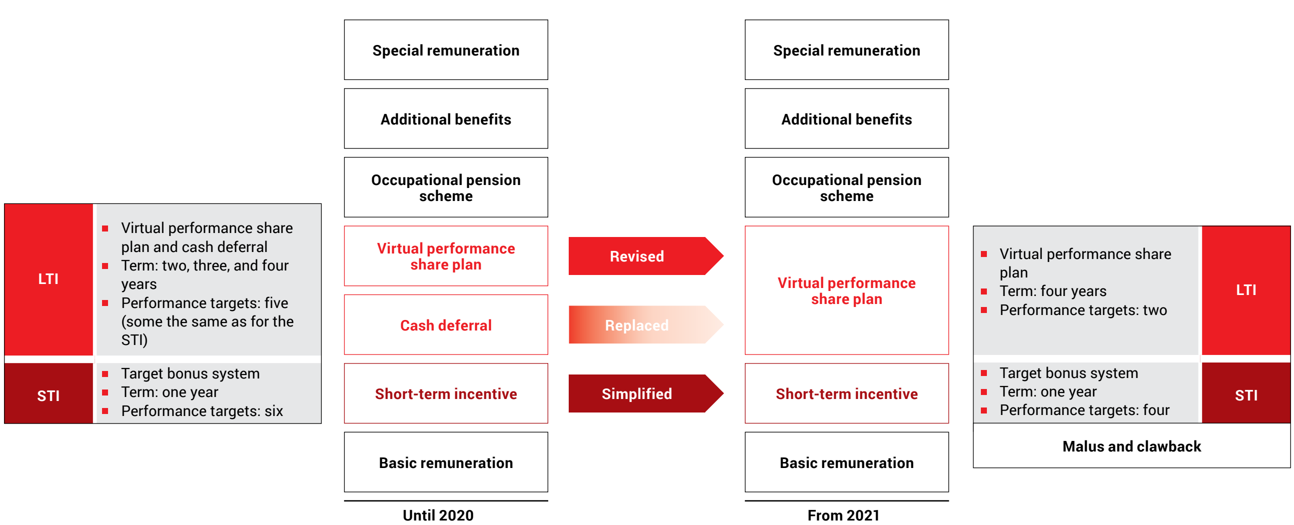
I. REVIEW OF 2021 FROM A REMUNERATION PERSPECTIVE

The Supervisory Board of DEUTZ AG revised the remuneration system for the members of the Board of Management in line with the German Act Implementing the Second Shareholder Rights' Directive (ARUG II). The revised system incorporates the statutory requirements and the recommendations in the version of the **German Corporate Governance Code (DCGK)** dated December 16, 2019 and supports DEUTZ AG's long-term, sustainable development. The new remuneration system for the members of the Board of Management was used for the first time in 2021.

Short-term variable remuneration (**short-term incentive, STI**) supports the aim of profitable growth and underpins the strategy for a future of carbon-neutral drive systems. It does so by setting out not only financial but also strategic and non-financial (**ESG**) performance criteria. Long-term variable remuneration (**long-term incentive, LTI**) is focused on DEUTZ AG's value-based development in terms of both capital employed and performance in the capital markets. The Board of Management members' ability to share in the Company's short-term and long-term success (the latter has a higher weighting) incentivizes them to develop the Company in a sustainable manner and ensure its long-term success. See also 'Remuneration for Board of Management members', p. 60 onward.

When the Board of Management remuneration system was revised, the underlying idea was to make the system understandable, bring the interests of investors and Board of Management members closer into line, and strengthen the long-term focus of remuneration. For example, the structure of the STI and LTI was simplified by reducing the number of performance targets. The cash deferral was removed completely. In return, the allocation value for the virtual performance share plan was increased, thereby lending it more importance. A share-based performance criterion was also added to the LTI. In addition, malus and clawback provisions were introduced for members of the Board of Management, reflecting the recommendation in the DCGK.

Comparison of the current and future remuneration systems



In accordance with section 120a (1) AktG, the new Board of Management remuneration system was presented to the shareholders of DEUTZ AG for approval at the virtual Annual General Meeting on April 29, 2021, at which it was approved with 72.01 percent of the votes. Although the vast majority of shareholders supported the system presented to them, a number of shareholders expressed criticism. This mainly related to the inclusion of sustainability targets (ESG targets) in the short-term incentive, the lack of share ownership guidelines, and the option for the Supervisory Board to grant a special bonus to the Board of Management members. The Supervisory Board of DEUTZ AG studied the main areas of criticism extensively and has issued the following statement explaining its position.

Sustainability targets in the short-term incentive The Supervisory Board of DEUTZ AG believes that the long-term strategies – such as the China strategy, the E-DEUTZ strategy, and the general Taking Responsibility sustainability strategy – are the right building blocks with which to achieve successful growth for DEUTZ AG in the medium and long term. The strategy targets and sustainability targets embedded in the remuneration system reflect the main elements of the long-term corporate strategy. The specific targets for the individual years are thus derived directly from the overarching long-term and forward-looking targets. See also 'Remuneration for Board of Management members', p. 60 onward.

When the remuneration system was developed in summer 2020, economic conditions were plagued by significant uncertainty created by the fallout from the coronavirus pandemic. The impact of the coronavirus crisis on DEUTZ meant that the medium-term targets that DEUTZ originally wanted to achieve in 2022 had to be postponed to 2023/2024. For example, the target set for 2022 as part of the E-DEUTZ strategy, whereby electric drive systems are to account for between 5 percent and 10 percent of consolidated revenue, was adjusted and is now not expected to be achieved until 2023/2024.

The actual macroeconomic conditions in which long-term strategic plans are being implemented are thus changing constantly, which means that the situation has to be reassessed regularly. The Supervisory Board therefore believes that, for the time being, embedding the sustainability targets in the short-term incentive is the right approach as it enables them to be incorporated into the incentive system for the Board of Management as effectively as possible and in line with the actual situation faced by the Company at any given time. This enables the Company to respond flexibly and appropriately to the rapid pace of change in the market.

Share ownership guidelines The bulk of the variable remuneration – and thus a significant proportion of the total remuneration – is granted to the Board of Management members in the form of share-based long-term variable remuneration. The share price affects the level of long-term variable remuneration in two ways because this remuneration component is based on virtual shares. Firstly, the value of the virtual shares changes as a result of changes in the DEUTZ AG share price. Secondly, the number of virtual shares is influenced by the share price. See also 'Remuneration for Board of Management members', p. 60 onward. In the opinion of the DEUTZ AG Supervisory Board, the interests of the Board of Management and those of shareholders are already sufficiently linked as a result of this mechanism. Nonetheless, the Supervisory Board will reconsider whether to introduce share ownership guidelines when the remuneration system is updated in the future.

Special remuneration The option of special remuneration reflects recommendation G.11 in the German Corporate Governance Code, according to which the Supervisory Board should have the option of taking extraordinary developments into account. This provision is the consequence of a ruling by the German Federal Court of Justice (BGH) relating to the takeover of Mannesmann by Vodafone and is thus in line with current best practice for executive pay. No special bonus was granted in the past ten years, and this was again the case in 2021.

There were changes to the membership of the Board of Management in 2021. Dr. Andreas Strecker left the Board of Management on February 28, 2021. Dr. Sebastian C. Schulte was appointed to the Board of Management on January 1, 2021 and Dr. Ing. Markus Müller was appointed on March 15, 2021. The new remuneration system also applies analogously to the two new Board of Management members.

The remuneration report was jointly prepared by the Board of Management and Supervisory Board and was audited by the auditor.
See 'Auditor's report', p. 205 onward.

II. REMUNERATION FOR BOARD OF MANAGEMENT MEMBERS

A. GENERAL PRINCIPLES OF THE REMUNERATION SYSTEM

The aim of the remuneration system is to support the achievement of DEUTZ's strategic objectives and ensure that the members of the Board of Management are paid appropriately. In line with DEUTZ's corporate strategy, the remuneration system incentivizes the Board of Management members to achieve profitable growth and sustainable value creation. Long-term variable remuneration is higher than short-term variable remuneration in order to underscore the particular importance of DEUTZ AG's long-term development.

The Supervisory Board of DEUTZ AG is responsible for the remuneration system and for setting the remuneration of the individual members of the Board of Management. It is supported by the Human Resources Committee, which prepares recommendations on the Board of Management remuneration system and carries out the preparatory work for the decisions of the Supervisory Board and for the review of the appropriateness of the level of remuneration.

B. REMUNERATION SYSTEM IN 2021

In 2021, the remuneration of the members of DEUTZ's Board of Management consisted of non-performance-related and performance-related remuneration components. The individual components of the remuneration system in 2021 are summarized in the following table:

Remuneration components	Support for long-term development	Structure in 2021
Non-performance-related remuneration		
Basic remuneration	Forms the basis for attracting and retaining highly qualified Board of Management members who develop and implement the strategy	▪ Fixed remuneration paid in monthly installments
Additional benefits		▪ Company car and insurance policies
Retirement pension		▪ Annual contribution to a benevolent fund
Performance-related remuneration		
Short-term variable remuneration (bonus)	Rewards the degree to which the corporate strategy has been operationalized and specific forward–looking sustainability targets have been implemented during a year	▪ Plan type: target bonus ▪ Performance criteria: – 30 % revenue – 30 % EBIT – 25 % strategy target – 15 % sustainability target ▪ Payment cap: 150 % of target amount ▪ Term: one year
Long-term variable remuneration	Incentivizes Board of Management members to contribute to the sustainable growth of DEUTZ AG and increase its value over the long term; brings the interests of investors and Board of Management members into line	▪ Plan type: virtual performance share plan ▪ Performance criteria: – 50 % relative total shareholder return (TSR) compared with DAXsubsector All Industrial Machinery – 50 % return on capital employed (ROCE) ▪ Payment cap: 180 % of target amount ▪ Term: four years
Miscellaneous		
Malus/clawback	Safeguards responsible corporate governance for the benefit of DEUTZ AG	▪ Option to reduce or claw back some or all of the variable remuneration in the event of a serious compliance violation
Special remuneration	Rewards special achievements in connection with exceptional (structural) events that were not factored into the strategic planning or that have a particularly strong impact on the Group	▪ Option to grant special remuneration ▪ Limited to half of the annual basic remuneration and also limited by the maximum amount of remuneration
Maximum amount of remuneration	Limits remuneration to an amount that is high enough to motivate the members of the Board of Management but is not inappropriately high	▪ Limit on the total remuneration granted for a year in accordance with section 87a (1) sentence 2 no. 1 AktG: – Chairman of the Board of Management: €2,800,000 – Ordinary members of the Board of Management: €1,900,000 each
Cap on severance pay	Avoids excessive severance payments that are not in the interests of DEUTZ AG	▪ Severance payments are limited to twice the amount of annual remuneration and may not exceed the remuneration due for the remaining term of the contract

B.1. NON-PERFORMANCE-RELATED REMUNERATION

Non-performance-related remuneration is granted to the Board of Management members irrespective of their specific performance in relation to their targets and irrespective of the Company's performance. This remuneration comprises basic remuneration, additional benefits, and a retirement pension. The components of non-performance-related remuneration form the basis for attracting and retaining highly qualified Board of Management members who develop and implement the strategy.

Basic remuneration The basic remuneration is a fixed amount that is granted irrespective of the actual performance of DEUTZ AG.

Additional benefits Each Board of Management member receives additional benefits in the form of non-monetary remuneration and other benefits. In 2021, the additional benefits for the members of the Board of Management comprised the provision of a company car that can also be used privately, the option of a driver for the car, and payment of insurance premiums for accident and D&O insurance policies.

Retirement pension The retirement pension for Board of Management members is structured as a defined contribution plan. For each Board of Management member, DEUTZ AG paid an amount into a reinsured benevolent fund in 2021 (pension expense). When they retire, the Board of Management members are entitled to the capital promised to them; this payment is made by the benevolent fund.

Aspect	Details
Pension plan type	Defined contribution pension plan
Start of retirement	Standard retirement age is 65; earliest possible retirement age is 62 (provided that the statutory pension is also drawn)
Return	The return depends on the policyholder dividend arrangements of the insurer. There is no guaranteed return, i.e. there is no return over and above what is agreed in the policyholder dividend arrangements.
Payment options	An amount of capital is promised. In agreement with the Board of Management member, DEUTZ AG can agree a life-long annuity instead of a lump sum. This annuity is paid by the benevolent fund once there has been a pension trigger event.
Invalidity/death	Death before the start of retirement: the policy value is paid out. Benefits may also be paid in the form of a share of the valuation reserves. Death after the start of retirement (applies only if a life-long annuity has been arranged): payment of ten times the annual annuity guaranteed from the start of retirement. Guaranteed annuities that have already been paid are deducted from this amount.

Pension expense for Board of Management members The pension expenses in 2021 are shown in the following table:

	Pension expense in 2021 (€ thousand)
Dr. Ing. Frank Hiller	150
Dr. Ing. Markus Müller (since March 15, 2021)	50
Dr. Sebastian C. Schulte (since January 1, 2021)	50
Dr. Andreas Strecker (until February 28, 2021)	12.5
Michael Wellenzohn	80

B.2. PERFORMANCE-RELATED REMUNERATION

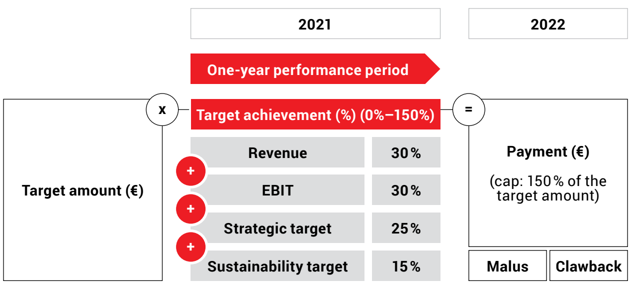
The following chapters describe the structure of the remuneration granted or owed in 2021. Remuneration granted is the remuneration for which the related (one-year or multiple-year) work has been performed in full, i.e. the performance period has ended and the performance criteria have been met. Remuneration owed is when DEUTZ has a legal obligation to the Board of Management member that is due but has not yet been fulfilled.

The structure of the LTI promised in 2021 (2021–2024) is also described. Remuneration promised is the remuneration that is promised to the Board of Management members for 2021, irrespective of the timing of payment (target remuneration).

2.1 SHORT-TERM VARIABLE REMUNERATION – BONUS (STI)

The bonus contributes to the Company's long-term development by specifying how the corporate strategy is to be implemented operationally during a year and rewarding its implementation. Success is assessed on the basis of financial, strategic, and sustainability performance criteria. The financial targets revenue and EBIT underpin DEUTZ AG's growth strategy and its regional growth initiatives because together they incentivize the Board of Management members to contribute to profitable growth. The strategy target is based on the achievement of specific strategic initiatives, such as implementation of the E-DEUTZ strategy. The sustainability target reflects DEUTZ AG's social and environmental responsibility and is derived from the groupwide Taking Responsibility sustainability strategy, which forms part of the overall strategy.

Short-term variable remuneration – bonus (STI)



The target amount is the starting point for the STI. The target amount is multiplied by the total target achievement rate to obtain the amount payable. Total target achievement for the STI is the weighted sum of the rates of target achievement for the four performance criteria revenue, EBIT, strategy target, and sustainability target. For 2021, the Supervisory Board specified a strategy target from the internationality category and a sustainability target from the alternative drives category.

The target values for the performance criteria are set by the Supervisory Board, and target achievement in respect of these values is determined by the Supervisory Board after the end of the performance period. If performance is below a threshold, target achievement for the relevant share of the STI is 0 percent. This may result in no STI being paid at all. Target achievement is limited to a maximum of 150 percent. Linear interpolation is applied between the aforementioned rates of target achievement.

Revenue Revenue is defined as the consolidated revenue calculated and audited in accordance with the accounting principles that apply to DEUTZ AG by law. Revenue has a weighting of 30 percent.

The minimum threshold, the target value corresponding to 100 percent target achievement, the cap, the actual value achieved in 2021, and the resulting rate of target achievement for the revenue performance criterion are shown in the following table:

STI 2021

	Revenue	Target achievement
Minimum threshold	€1,160.0 million	50 %
Target value	€1,432.0 million	100 %
Cap	€1,700.0 million	150 %
Actual value	€1,617.3 million	134.6 %

If a value is achieved between the minimum threshold and the target value, target achievement is interpolated on a linear basis between 50 percent and 100 percent. If a value is achieved between the target value and the cap, target achievement is interpolated on a linear basis between 100 percent and 150 percent.

EBIT EBIT is defined as the consolidated earnings before interest and tax (EBIT) calculated and audited in accordance with the accounting principles that apply to DEUTZ AG by law. EBIT has a weighting of 30 percent.

The minimum threshold, the target value corresponding to 100 percent target achievement, the cap, the actual value achieved in 2021, and the resulting rate of target achievement for the EBIT performance criterion are shown in the following table:

STI 2021

	EBIT	Target achievement
Minimum threshold	– €30.0 million	50 %
Target value	€0.1 million	100 %
Cap	€30.0 million	150 %
Actual value	€37.2 million	150 %

If a value is achieved between the minimum threshold and the target value, target achievement is interpolated on a linear basis between 50 percent and 100 percent. If a value is achieved between the target value and the cap, target achievement is interpolated on a linear basis between 100 percent and 150 percent.

Strategy target and sustainability target The strategy target for 2021 was selected from the internationality category and given a weighting of 25 percent. The sustainability target for 2021 was selected from the alternative drives category and given a weighting of 15 percent.

Within their categories, ten individual targets were set for the strategy target and for the sustainability target. Examples of these individual targets, which are grouped into clusters, are shown in the following table:

Strategy targets for 2021 in the internationality category, derived from the growth and internationalization strategy

Target cluster	Examples of individual targets
China	Establish a new factory; localize purchasing
USA	Establish a new diesel power center; design a US long block concept
Spain	Establish a shared service center
Europe	Expand DEUTZ Engineering

Sustainability targets for 2021 in the alternative drives category, derived from the sustainability strategy

Target cluster	Examples of individual targets
Hydrogen	Complete a development test bay; establish a mobile H2 genset as a demonstration model; secure a project eligible for support
E-DEUTZ	Complete customer applications; secure a volume production order

Target achievement for the strategy target and sustainability target is measured by the number of individual targets that were reached in the relevant category in 2021. The correlation between the number of targets reached and target achievement is shown in the following table along with the actual rate of target achievement in 2021:

STI 2021

	Number of individual targets reached in the relevant categories for the strategy target and sustainability target	Target achievement
Minimum threshold	3	50 %
Target value	5	100 %
Cap	7	150 %
Actual value: **strategy target**	7	150 %
Actual value: **sustainability target**	10	150 %

Ex post changes to the performance criteria and target values for the performance criteria are not permitted. In accordance with the recommendation in G.11 DCGK, the Supervisory Board also has the option of taking exceptional developments appropriately into account in the STI if such developments were not explicitly factored into the strategic planning and defined individual targets. The Supervisory Board did not exercise this option in 2021.

Determination of the STI The determined target achievement rates are multiplied by the relevant weightings for the performance criteria and then added up to give the total target achievement. This is multiplied by the target amount to obtain the amount payable, which is limited to 150 percent of the target amount.

The following table summarizes the target amount, total target achievement, and the resulting amount payable under the STI 2021 for each member of the Board of Management:

STI 2021

	Dr. Ing. Frank Hiller	Dr. Ing. Markus Müller	Dr. Sebastian C. Schulte	Dr. Andreas Strecker	Michael Wellenzohn
Target amount	€428 thousand	€238 thousand	€300 thousand	€50 thousand	€300 thousand
Total target achievement	145.4%	145.4%	145.4%	145.4%	145.4%
Amount payable	€622 thousand	€345 thousand	€436 thousand	€72 thousand	€436 thousand

2.2 LONG-TERM VARIABLE REMUNERATION (LTI)

Long-term variable remuneration contributes to the Company's long-term development by rewarding implementation of the Company's strategies, their focus on sustainability, and the long-term increase in the value of DEUTZ AG on the basis of the original remuneration system that applied until 2020 and the new remuneration system that has applied to the Board of Management since 2020. Success is assessed using financial and share-based performance criteria derived from DEUTZ AG's strategy.

2.2.1 2020–2021 DEFERRAL (2019 BONUS) AND 2021–2022 DEFERRAL (2020 BONUS) – GRANTED IN 2021

Of the bonus promised in the past, only 60 percent was paid following the determination of target achievement, while 20 percent was deferred for one year and another 20 percent for two years. These deferred amounts were then paid, provided that further performance targets (medium-term targets) were achieved. Consequently, the deferred portions of the 2019 bonus (deferred for two years) and of the 2020 bonus (deferred for one year) were paid in 2021.

The amounts payable under the 2019 and 2020 bonuses were determined on the basis of the total target achievement rate for the performance criteria. If total target achievement was below 75 percent, there was no entitlement to a bonus. If total target achievement was 75 percent (minimum threshold), the bonus was 50 percent. If total target achievement was 100 percent, the bonus was measured at 100 percent. And if total target achievement was 150 percent or higher (cap), the bonus was 150 percent. The bonus was interpolated on a linear basis between the minimum threshold and 100 percent target achievement and between 100 percent target achievement and the cap.

The total target achievement rate for the bonus in 2019 was based on the performance criteria EBIT margin before exceptional items (40 percent), average working capital (30 percent), and revenue (30 percent). In 2020, the total target achievement rate for the bonus was measured using the performance criteria EBIT margin before exceptional items (40 percent), average working capital (20 percent), revenue (20 percent), and strategic objectives (30 percent). In 2019, the target values were 4.9 percent for the EBIT margin before exceptional items, 16.5 percent for average working capital, and €1.9 million for revenue. And in 2020, they were 2.5 percent for the EBIT margin before exceptional items, 20.6 percent for average working capital, and approximately €1.6 million for revenue. The strategic objectives for 2020 related to E-DEUTZ, the China strategy, and external alliances with other companies; they consisted of three targets in each of these areas. Target achievement for 2019 was determined to be 86.4 percent for the EBIT margin before exceptional items, 77.5 percent for average working capital, and 90.2 percent for revenue. This gives a total target achievement of 84.9 percent and a bonus of 69.8 percent in 2019. Target achievement for 2020 was 0 percent for the EBIT margin before exceptional items, 0 percent for average working capital, 0 percent for revenue, and 139.0 percent for the strategic objectives. This gives a total target achievement of 41.7 percent for 2020. As total target achievement for 2020 was below the minimum threshold, there was no entitlement to a bonus for 2020. Consequently, no bonus amounts were deferred from 2020.

The amount payable for the deferral is determined by multiplying the deferred amount by the total target achievement rate for the deferral performance criteria. The deferral performance criteria (medium-term targets) for the deferred payment of the 2019 and 2020 bonus are revenue and the EBIT margin. These two financial performance criteria have an equal weighting.

Revenue Revenue is defined as the consolidated revenue calculated and audited in accordance with the accounting principles that apply to DEUTZ AG by law. The minimum threshold, the target value corresponding to 100 percent target achievement, the actual value achieved in 2021, and the resulting rate of target achievement for the revenue performance criterion are shown in the following table for the two deferred payments:

2020–2021 deferral (2019 bonus)

	Revenue	Target achievement
Minimum threshold	€0 billion	0 %
Target value	€2.07 billion	100 %
Actual value	€1.62 billion	78.1 %

2021–2022 deferral (2020 bonus)

	Revenue	Target achievement
Minimum threshold	€0 billion	0 %
Target value	€1.90 billion	100 %
Actual value	€1.62 billion	45.1 %

If a value is achieved between the minimum threshold and the target value, target achievement is interpolated on a linear basis between 0 percent and 100 percent. If revenue is higher than the target value, target achievement for revenue is extrapolated on a linear basis. Total target achievement for revenue and the EBIT margin is capped at 150 percent.

EBIT margin The EBIT margin is defined as EBIT divided by revenue. EBIT is defined as the consolidated earnings before interest and tax (EBIT) calculated and audited in accordance with the accounting principles that apply to DEUTZ AG by law. The minimum threshold, the target value corresponding to 100 percent target achievement, the actual value achieved in 2021, and the resulting rate of target achievement for the EBIT margin performance criterion are shown in the following table for the two deferred payments:

2020–2021 deferral (2019 bonus)

	EBIT margin	Target achievement
Minimum threshold	0 %	0 %
Target value	6.4 %	100 %
Actual value in 2021	2.3 %	35.9 %

2021–2022 deferral (2020 bonus)

	EBIT margin	Target achievement
Minimum threshold	0 %	0 %
Target value	5.0 %	100 %
Actual value in 2021	2.3 %	46.0 %

If a value is achieved between the minimum threshold and the target value, target achievement is interpolated on a linear basis between 0 percent and 100 percent. If the EBIT margin is higher than the target value, target achievement for the EBIT margin is extrapolated on a linear basis. Total target achievement for revenue and the EBIT margin is capped at 150 percent.

Determination of the deferral The target achievement rates determined in this way are multiplied by the relevant weightings for the performance criteria and then added up to give the total target achievement. This is multiplied by the deferred amount for the bonus to obtain the amount payable, which is limited to 150 percent of the target amount.

The following table summarizes the deferred amount for the bonus, total target achievement, and the resulting amount payable for the 2020–2021 deferral and 2021–2022 deferral for each member of the Board of Management to whom a deferral was granted:

2020–2021 deferral (2019 bonus)

	Dr. Ing. Frank Hiller	Dr. Andreas Strecker	Michael Wellenzohn
Deferred amount	€105 thousand	€63 thousand	€65 thousand
Total target achievement	57.1 %	57.1 %	57.1 %
Amount payable	€60 thousand	€36 thousand	€37 thousand

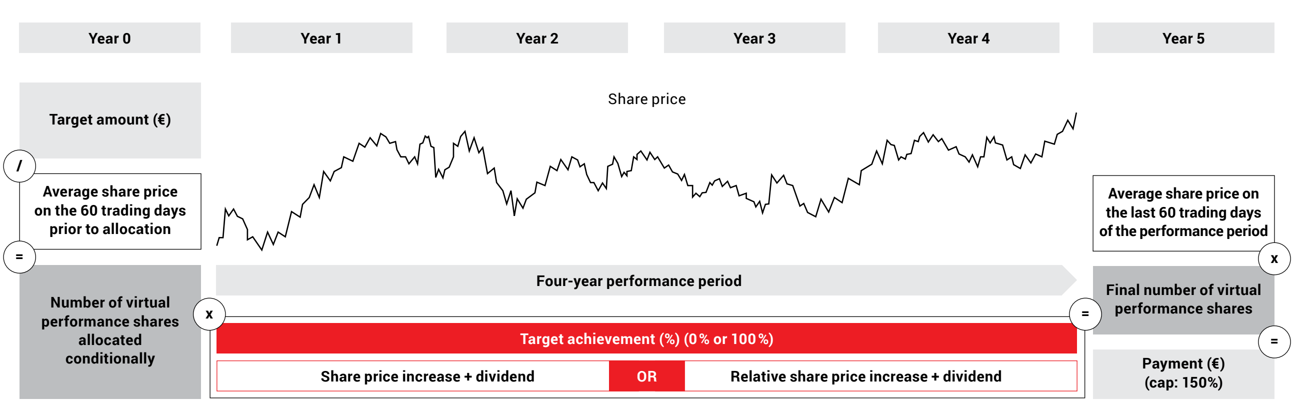
2021–2022 deferral (2020 bonus)

	Dr. Ing. Frank Hiller	Dr. Andreas Strecker	Michael Wellenzohn
Deferred amount	€0 thousand	€0 thousand	€0 thousand
Total target achievement	65.6%	65.6%	65.6%
Amount payable	€0 thousand	€0 thousand	€0 thousand

2.2.2 LTI (LTI 2018–2021)

In 2021, the Board of Management members were granted remuneration in connection with the LTI promised in 2018. The LTI promised in 2018 was promised in the form of virtual performance shares. The target amount is the starting point for the allocation.

Long-term Incentive (2018–2021)



At the start of the four-year term, the target amount was divided by the average DEUTZ AG share price (arithmetic mean of the XETRA closing price on the last 60 trading days prior to the start of the performance period) in order to determine a number of virtual shares that are promised conditionally (virtual performance shares, VPSs). The start of the term was January 1, 2018 for Dr. Ing. Hiller and Mr. Wellenzohn. For Dr. Strecker, it was the date of his appointment to the Board of Management, i.e. March 1, 2018. The average DEUTZ AG share price was €7.03 for Dr. Ing. Hiller and Mr. Wellenzohn. For Dr. Strecker, it was €7.58. The number of VPSs promised to the Board of Management members for 2018 is shown in the following table:

Number of virtual shares promised conditionally to each Board of Management member in 2018

Board of Management member	Number of virtual shares promised conditionally in 2018
Dr. Ing. Frank Hiller	28,455
Dr. Andreas Strecker (until February 2021)	19,789
Michael Wellenzohn	18,963

Entitlement to payment after expiry of the four-year performance period depends on whether one of the two performance criteria – share price increase or relative share price increase – has been met.

The LTI payment is limited to 150 percent of the target amount. Target achievement for the performance criteria is calculated as follows:

Share price increase To calculate the increase in the share price during the performance period, the price of DEUTZ shares on the stock exchange (average closing price of DEUTZ AG shares in Xetra trading on the Frankfurt Stock Exchange during the last 60 trading days prior to expiry of the performance period) is compared with the reference price (average closing price of DEUTZ AG shares in Xetra trading on the Frankfurt Stock Exchange during the 60 trading days prior to the allocation date). In this calculation of the share price increase, any gross dividends distributed up to the end of the vesting period are added to the market value of the DEUTZ shares.

The target value resulting in 100 percent target achievement and the actual value achieved in 2021 for the share price increase performance criterion are as follows:

LTI grant in 2021

	Share price increase in the period 2018 to 2021	Target achievement
Minimum threshold	< 30 %	0 %
Target value	>= 30 %	100 %
Actual value in 2021	–6.7 %	0 %

Relative share price increase To calculate the relative increase in the share price, the increase in the DEUTZ share price (see ‘Share price increase performance criterion’) is compared with the increase in share prices on the MDAX.

The target value resulting in 100 percent target achievement and the actual value achieved in 2021 for the relative share price increase performance criterion are as follows:

LTI grant in 2021

	Difference between the increase in the DEUTZ share price and the increase in share prices on the MDAX in the period 2018 to 2021	Target achievement
Minimum threshold	< 10 percentage points	0 %
Target value	>= 10 percentage points	100 %
Actual value in 2021	–41.1 %	0 %

Ex post changes to the performance criteria and target values for the performance criteria are not permitted.

Determination of the LTI After the end of the performance period, it is determined whether entitlement to payment arose during the performance period. To calculate the amount of the cash payment after the end of the performance period, the final number of VPSs in the event of entitlement to payment is multiplied by the average DEUTZ AG share price (arithmetic mean of the closing price on the last 60 trading days prior to expiry of the performance period). The amount payable is limited to 150 percent of the target amount.

The following table summarizes various items of information, including the target amount, total target achievement, and the resulting amount payable for the LTI 2018–2021 for each member of the Board of Management to whom the LTI 2018–2021 was granted:

LTI 2018-2021[1]

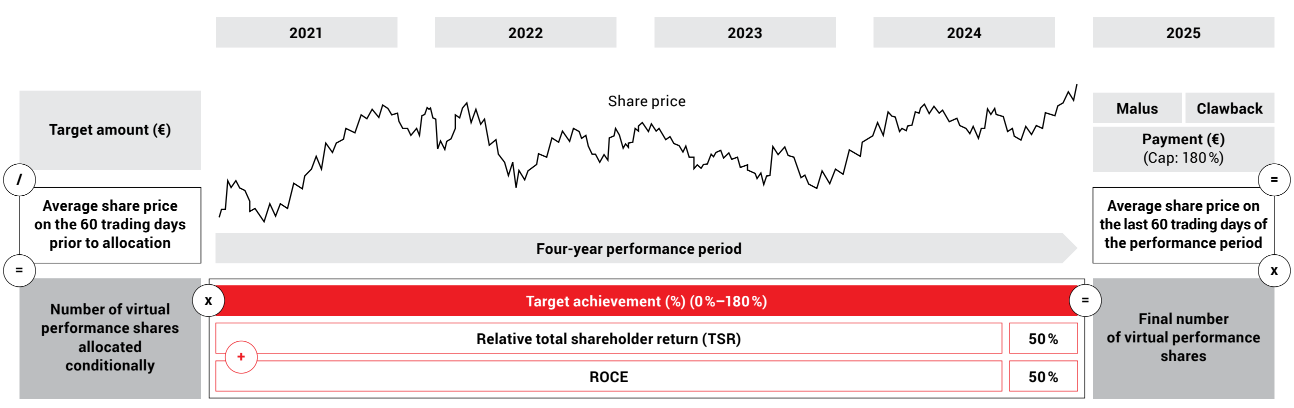
	Dr. Ing. Frank Hiller	Michael Wellenzohn
Target amount	€200 thousand	€133 thousand
Allocation price	€7.03	€7.03
Number of virtual shares	28,455	18,963
Total target achievement	0%	0%
Final number of virtual shares	0	0
Closing price	€6.82	€6.82
Amount payable	€0	€0

[1] For Dr. Andreas Strecker, the term of the LTI 2018–2021 began on March 1, 2018 and ends on February 28, 2022. Consequently, it will not be possible to disclose target achievement and the amount payable until the 2022 remuneration report.

2.2.3 LTI (ALLOCATION IN 2021)

The LTI promised in 2021 is promised as annual tranches of virtual shares (virtual performance shares, VPSs). The target amount is the starting point for the promised LTI and totals between 63 percent and 69 percent of the Board of Management members' basic remuneration.

Long-term Incentive (2021–2024)



At the start of the four-year term, the target amount is divided by the average DEUTZ AG share price (arithmetic mean of the XETRA closing price on the last 60 trading days prior to the start of the performance period) in order to determine a number of VPSs that are promised conditionally. For 2021, the average DEUTZ AG share price was €4.79. The number of VPSs promised to the Board of Management members for 2021 is shown in the following table:

Board of Management member	Promised LTI amount (target amount)	Number of virtual shares allocated conditionally in 2021
Dr. Ing. Frank Hiller	€522 thousand	108,977
Dr. Ing. Markus Müller (since March 15, 2021)	€294 thousand	61,372
Dr. Sebastian C. Schulte (since January 1, 2021)	€370 thousand	77,244
Dr. Andreas Strecker (until February 28, 2021)	€0 thousand	0
Michael Wellenzohn	€365 thousand	76,200

The final number of VPSs depends on the aggregated rates of target achievement for the performance criteria return on capital employed (ROCE) and relative total shareholder return (relative TSR).

Target achievement for relative TSR is determined after the end of the performance period on the basis of DEUTZ AG's percentile ranking within a TSR peer group. The target value for the ROCE performance criterion is set by the Supervisory Board. Target achievement for ROCE is determined once the relevant consolidated financial statements for the final year of the performance period have been approved by the Supervisory Board.

The LTI payment is limited to 180 percent of the target amount. Target achievement for the performance criteria is calculated as follows:

Relative total shareholder return Relative TSR compares DEUTZ's TSR performance against that of a specific peer group and has a weighting of 50 percent. TSR performance is calculated by comparing the share price (plus the dividend paid) at the end of the performance period with the value at the start of the performance period. The TSR peer group comprises companies in the DAXsubsector All Industrial Machinery.

Some of the companies in this peer group are therefore different from those in the peer group used to check whether the Board of Management's remuneration is typical in comparison with that in similar companies. The composition of the peer group for assessing how remuneration compares with that of other companies is based on stock-corporation law criteria, such as sector, size, and country. The composition of the TSR peer group has been given a greater sectoral focus, which means that companies that are larger or smaller than DEUTZ are also included. Some companies in the TSR peer group would therefore not meet the stock-corporation law criteria regarding size that are applied in the comparison of Board of Management remuneration with that in similar companies. The Supervisory Board believes that a peer group with a greater sectoral focus is better suited to evaluating DEUTZ's performance relative to relevant competitors and the overall sector than the peer group used to compare Board of Management remuneration with that in similar companies.

As at December 2021, the TSR peer group comprised the following companies:

Aumann AG, Datron AG, DMG MORI AG, Dürr AG, Francotyp-Postalia Holding AG, Heidelberger Druckmaschinen AG, Jungheinrich AG, KHD Humboldt Wedag International AG, KHD Humboldt Wedag Vermögensverwaltungs-AG, KION GROUP AG, Knorr-Bremse AG, Koenig & Bauer AG, Krones AG, KSB SE & Co. KGaA, Kuka AG, Maschinenfabrik Berthold Hermle AG, Masterflex SE, NORMA Group SE, PITTLER Maschinenfabrik AG, SAF-Holland SE, Schaltbau Holding AG, SCHUMAG AG, Stabilus S.A., Wacker Neuson SE, WashTec AG.

TSR performance is determined for each company in the peer group and for DEUTZ after the end of the performance period. The individual values are then ranked and given a percentile ranking in which the 0th percentile ranking represents the lowest TSR performance and the 100th percentile ranking represents the highest TSR performance.

Target achievement for relative TSR is determined after the end of the performance period on the basis of DEUTZ AG's percentile ranking as follows:

LTI allocation in 2021

	DEUTZ's percentile ranking for TSR	Target achievement
Minimum threshold	25th	0%
Target value	50th	100%
Cap	75th	180%

If a value is achieved between the minimum threshold and the target value, target achievement is interpolated on a linear basis between 50 percent and 100 percent. If a value is achieved between the target value and the cap, target achievement is interpolated on a linear basis between 100 percent and 180 percent.

Return on capital employed ROCE is the ratio of consolidated earnings before interest and tax (EBIT, based on the consolidated financial statements) to capital employed and has a weighting of 50 percent. The relevant figure for the assessment of target achievement for the 2021 tranche is ROCE for the final year of the performance period, i.e. ROCE in 2024.

The threshold for ROCE equates to DEUTZ AG's weighted average cost of capital (WACC). If ROCE is below the WACC, target achievement is 0 percent. There is thus no entitlement to the payment of a bonus unless the return on capital employed exceeds the costs.

The minimum threshold, the target value corresponding to 100 percent target achievement, and the cap including the resulting target achievement for ROCE in 2024 are as follows:

LTI allocation in 2021

	ROCE	Target achievement
Minimum threshold	7.6%	50%
Target value	11.0%	100%
Cap	15.0%	180%

If a value is achieved between the minimum threshold and the target value, target achievement is interpolated on a linear basis between 50 percent and 100 percent. If a value is achieved between the target value and the cap, target achievement is interpolated on a linear basis between 100 percent and 180 percent.

Ex post changes to the performance criteria and target values for the performance criteria are not permitted. In accordance with the recommendation in G.11 DCGK, however, for the LTI, the Supervisory Board has the option of taking exceptional developments appropriately into account in respect of measurement variables, targets, and the determination of target achievement. The Supervisory Board did not exercise this option in 2021.

Determination of the LTI After the end of the performance period, the final number of VPSs is determined by multiplying the number of VPSs that are promised conditionally by the weighted total target achievement. To calculate the amount of the cash payment after the end of the performance period, the final number of VPSs is multiplied by the average DEUTZ AG share price (arithmetic mean of the closing price on the last 60 trading days prior to expiry of the performance period). The amount payable is limited to 180 percent of the target amount.

2.3 OVERVIEW OF THE VARIABLE REMUNERATION GRANTED AND OWED IN 2021

The following table summarizes the short-term and long-term variable remuneration resulting from the performance criteria that was granted or owed for 2021:

	Dr. Ing. Frank Hiller	Dr. Ing. Markus Müller	Dr. Sebastian C. Schulte	Dr. Andreas Strecker	Michael Wellenzohn
STI 2021					
Target amount	€428 thousand	€238 thousand	€300 thousand	€50 thousand	€300 thousand
Total target achievement	145.4%	145.4%	145.4%	145.4%	145.4%
Amount payable	**€622 thousand**	**€345 thousand**	**€436 thousand**	**€72 thousand**	**€436 thousand**
LTI – deferral (2019 bonus)					
Deferred amount	€105 thousand	–	–	€63 thousand	€65 thousand
Total target achievement	57.1%	–	–	57.1%	57.1%
Amount payable	**€60 thousand**	**–**	**–**	**€36 thousand**	**€37 thousand**
LTI – deferral (STI 2020)					
Deferred amount	€0 thousand	–	–	€0 thousand	€0 thousand
Total target achievement	65.6%	–	–	65.6%	65.6%
Amount payable	**€0 thousand**	**–**	**–**	**€0 thousand**	**€0 thousand**
LTI 2018–2021					
Target amount	€200 thousand	–	–	€150 thousand	€133 thousand
Allocation price	€7.03	–	–	€7.58	€7.03
Number of virtual shares	28,455	–	–	19,789	18,963
Total target achievement	0%	–	–	–[1]	0%
Final number of virtual shares	0	–	–	–	0
Closing price	€6.82	–	–	–	€6.82
Amount payable	**€0**	**–**	**–**	**–[1]**	**€0**
Variable remuneration granted and owed (total)	**€682 thousand**	**€345 thousand**	**€436 thousand**	**€108 thousand**	**€473 thousand**

[1] For Dr. Andreas Strecker, the term of the LTI 2018–2021 began on March 1, 2018 and ends on February 28, 2022. Consequently, it will not be possible to disclose target achievement and the amount payable until the 2022 remuneration report.

2.4 MISCELLANEOUS

Malus and clawback The short-term variable remuneration and the virtual performance shares are subject to malus and claw-back conditions. This means that if, as proved by the Company, a Board of Management member is in serious violation of applicable law, his or her statutory obligations, or the obligations in his or her employment contract, the Supervisory Board is entitled to withhold some of the variable remuneration that has not yet been paid (malus) and to claw back variable remuneration that has already been paid. The Supervisory Board decides on this at its professional discretion. The Supervisory Board did not withhold or claw back any variable remuneration components in 2021.

Special remuneration In exceptional cases, the Supervisory Board can, at its professional discretion, grant a special bonus to Board of Management members in accordance with recommendation G.11 in the German Corporate Governance Code. The Supervisory Board must both identify and provide grounds for such exceptions. The special bonus is limited in two ways. Firstly, it is limited in relative terms to half of the Board of Management member's annual basic remuneration. Secondly, it is limited by the maximum remuneration pursuant to section 87a (1) sentence 2 no. 1 AktG, which represents the absolute upper limit on total remuneration. No such special bonus has been granted in the past ten years, and this was again the case in 2021.

Adherence to the maximum remuneration limit As well as limiting the variable remuneration components, the Supervisory Board has specified a maximum amount of remuneration for each member of the Board of Management pursuant to section 87a (1) sentence 2 no. 1 AktG that limits the remuneration to be paid that was granted for a particular year. This maximum remuneration encompasses the basic remuneration, additional benefits, retirement pension, payments under the STI and LTI, and any special bonuses. The following maximum remuneration amounts for the members of the DEUTZ Board of Management are lower than the maximum remuneration amounts specified in the 2021 remuneration system and therefore meet the requirements of this system.

Maximum remuneration pursuant to section 87a (1) sentence 2 no. 1 AktG

Board of Management member	
Dr. Ing. Frank Hiller	€2,482 thousand
Dr. Ing. Markus Müller (since March 2021)	€1,746 thousand
Dr. Sebastian C. Schulte (since January 2021)	€1,746 thousand
Dr. Andreas Strecker (until February 2021)	€1,754 thousand
Michael Wellenzohn	€1,767 thousand

For 2021, the maximum remuneration limit was adhered to in respect of the basic remuneration, additional benefits, retirement pension, and payments under the STI without having to reduce any component. Because the amount payable for the multi-year variable remuneration will not be known until the third year after the end of the reporting year owing to the four-year performance period, it will not be possible to report conclusively on adherence to the maximum remuneration limit for 2021 until the remuneration report for 2024.

Benefits in the event of early termination of Board of Management membership If the employment contract or the appointment of a Board of Management member is terminated prematurely without good cause pursuant to section 626 of the German Civil Code (BGB), the Board of Management member receives a severance payment equivalent to the total remuneration that the Company is likely to owe him or her for the period until the original termination date of the contract of employment up to a maximum of two years (cap on severance pay).

In 2021, no member of the Board of Management was granted benefits due to the early termination of his or her Board of Management membership.

C. AMOUNT OF BOARD OF MANAGEMENT REMUNERATION IN 2021

C.1. REMUNERATION FOR BOARD OF MANAGEMENT MEMBERS WHO WERE CURRENT MEMBERS IN THE REPORTING YEAR

Remuneration promised and remuneration granted and owed in 2021 The remuneration that was promised to the members of the Board of Management and the remuneration that was granted and owed in 2021 pursuant to section 162 (1) sentence 1 AktG is shown in the following tables.

Promised remuneration: Remuneration promised is the remuneration that is promised to the Board of Management members for 2021, irrespective of the timing of payment (target remuneration).

In respect of the remuneration components in 2021, 'promised' specifically refers to the following:

Remuneration promised in 2021

Remuneration components
Basic remuneration
Additional benefits
Expenses for occupational pension scheme
STI 2021 (granted in 2021)
LTI 2021–2024 (to be granted in 2024)

Granted and owed: Remuneration granted is the remuneration for which the related (one-year or multiple-year) work has been performed in full. Remuneration owed is when DEUTZ has a legal obligation to the Board of Management member that is due but has not yet been fulfilled.

In respect of the remuneration components in 2021, 'granted and owed' specifically refers to the following:

Remuneration granted and owed in 2021 pursuant to section 162 (1) sentence 1 AktG[1]

Remuneration components	
Basic remuneration	
Additional benefits	
STI 2021 (promised in 2021)	
LTI	LTI 2018–2021 (promised in 2018)
	2020–2021 deferral (2019 bonus) (promised in 2019)
	2021–2022 deferral (2020 bonus) (promised in 2020)

[1] Pension expenses for a year are not deemed remuneration granted and owed pursuant to section 162 (1) no. 1 AktG because the work to which the remuneration is related has not yet been performed in full.

The following tables show the remuneration promised to the members of the Board of Management in 2021 (target remuneration):

Target remuneration

	Dr. Ing. Frank Hiller, Chairman of the Board of Management (until February 13, 2022)				Dr. Ing. Markus Müller, ordinary member of the Board of Management (since March 15, 2021)			
	2021		2020		**2021**		2020	
	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)
Basic remuneration	750	40.1	750	52.7	459	24.5	–	–
+ Additional benefits	22	1.2	22	1.5	19	1.8	–	–
= Total non-performance-related remuneration	**772**	**41.2**	**772**	**54.3**	**478**	**45.1**	**–**	**–**
+ One-year variable remuneration (total)	428	22.9	0	0.0	238	12.7	–	–
STI 2020[1]	–	–	0	0.0	–	–	–	–
STI 2021	428	22.9	–	–	238	22.4	–	–
+ Multi-year variable remuneration (total)	522	27.9	500	35.2	294	15.7	–	–
2021–2022 deferral (STI 2020)[2]	–	–	300	21.1	–	–	–	–
LTI 2020 – 2023	–	–	200	14.1	–	–	–	–
LTI 2021–2024	522	27.9	–	–	294	27.7	–	–
+ Expense for occupational pension scheme	150	8.0	150	10.5	50	4.7	–	–
= Total remuneration	**1,872**	**100.0**	**1,422**	**100.0**	**1,060**	**100.0**	**–**	**–**

	Dr. Sebastian C. Schulte, ordinary member of the Board of Management (since January 1, 2021)				Dr. Andreas Strecker, ordinary member of the Board of Management (until February 28, 2021)				Michael Wellenzohn, ordinary member of the Board of Management			
	2021		2020		**2021**		2020		**2021**		2020	
	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)
Basic remuneration	580	43.9	–	–	97	59.8	580	55.0	580	42.8	580	54.3
+ Additional benefits	21	1.6	–	–	3	1.9	24	2.3	30	2.2	37	3.5
= Total non-performance-related remuneration	**601**	**45.5**	**–**	**–**	**100**	**61.6**	**604**	**57.3**	**610**	**45.0**	**617**	**57.8**
+ One-year variable remuneration (total)	300	22.7	–	–	50	30.6	0	0.0	300	22.1	0	0.0
STI 2020[1]	–	–	–	–	–	–	0	0.0	–	–	0	0.0
STI 2021	300	22.7	–	–	50	30.6	–	–	300	22.1	–	–
+ Multi-year variable remuneration (total)	370	19.8	–	–	–	–	330	31.3	365	26.9	351	32.9
2021–2022 deferral (STI 2020)[2]	–	–	–	–	–	–	180	17.1	–	–	186	17.4
LTI 2020 – 2023	–	–	–	–	–	–	150	14.2	–	–	165	15.4
LTI 2021–2024	370	28.0	–	–	–	–	–	–	365	26.9	–	–
+ Expense for occupational pension scheme	50	3.8	–	–	13	7.7	120	11.4	80	5.9	100	9.4
= Total remuneration	**1,321**	**100.0**	**–**	**–**	**162**	**100.0**	**1,054**	**100.0**	**1,355**	**100.0**	**1,068**	**100.0**

[1] In 2020, the Board of Management waived its one-year variable remuneration due to the pandemic.
[2] The deferral target amount comprises the target amount for a one-year deferral (2021 performance period) and the target amount for a two-year deferral (2021–2022 performance period).

The following tables show the remuneration granted and owed to the members of the Board of Management in 2021 pursuant to section 162 (1) sentence 1 AktG:

Remuneration granted and owed

	Dr. Ing. Frank Hiller, Chairman of the Board of Management (until February 13, 2022)				Dr. Ing. Markus Müller, ordinary member of the Board of Management (since March 15, 2021)			
	2021		2020		**2021**		2020	
	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)
Basic remuneration	750	51.6	750	97.2	459	55.8	–	–
+ Additional benefits	22	1.5	22	2.8	19	2.3	–	–
= Total non-performance-related remuneration	**772**	**53.1**	**772**	**100.0**	**478**	**58.1**	**–**	**–**
+ One-year variable remuneration (total)	622	42.8	–	–	345	41.9	–	–
STI 2020	–	–	–	–	–	–	–	–
STI 2021	622	42.8	–	–	345	41.9	–	–
+ Multi-year variable remuneration (total)	60	4.1	–	–	–	–	–	–
2019–2020 deferral (STI 2018)	–	–	–	–	–	–	–	–
2020–2021 deferral (STI 2019)	60	4.1	–	–	–	–	–	–
2021–2022 deferral (STI 2020)	0	0.0	–	–	–	–	–	–
LTI 2017–2020	–	–	–	–	–	–	–	–
LTI 2018–2021	0	0.0	–	–	–	–	–	–
+ Miscellaneous[1]	–	–	–	–	–	–	–	–
= Total remuneration	**1,454**	**100.0**	**772**	**100.0**	**823**	**100.0**	**–**	**–**

	Dr. Sebastian C. Schulte, ordinary member of the Board of Management (since January 1, 2021)				Dr. Andreas Strecker, ordinary member of the Board of Management (until February 28, 2021)				Michael Wellenzohn, ordinary member of the Board of Management			
	2021		2020		**2021**		2020		**2021**		2020	
	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)
Basic remuneration	580	55.9	–	–	97	46.6	580	96.0	580	53.5	580	94.0
+ Additional benefits	21	2.0	–	–	3	1.4	24	4.0	30	2.8	37	6.0
= Total non-performance related remuneration	**601**	**57.9**	**–**	**–**	**100**	**48.0**	**604**	**100.0**	**610**	**56.3**	**617**	**100.0**
+ One-year variable remuneration (total)	436	42.1	–	–	72	34.7	–	–	436	40.3	–	–
STI 2020	–	–	–	–	–	–	–	–	–	–	–	–
STI 2021	436	42.1	–	–	72	34.7	–	–	436	40.3	–	–
+ Multi-year variable remuneration (total)	–	–	–	–	36	17.3	–	–	37	3.4	–	–
2019–2020 deferral (STI 2018)	–	–	–	–	–	–	–	–	–	–	–	–
2020–2021 deferral (STI 2019)	–	–	–	–	36	17.3	–	–	37	3.4	–	–
2021–2022 deferral (STI 2020)	–	–	–	–	0	0.0	–	–	0	0.0	–	–
LTI 2017–2020	–	–	–	–	–	–	–	–	–	–	–	–
LTI 2018–2021	–	–	–	–	–	–	–	–	0	0.0	–	–
+ Miscellaneous[1]	–	–	–	–	–	–	–	–	–	–	–	–
= Total remuneration	**1,037**	**100.0**	**–**	**–**	**207**	**100.0**	604	100.0	**1,083**	**100.0**	617	100.0

[1] Miscellaneous remuneration comprises any remuneration not covered by the other remuneration components, e.g. severance payments or compensation for a non-compete period.

Remuneration of the Board of Management members in 2021 pursuant to section 314 (1) no. 6a HGB The total remuneration for the Board of Management of DEUTZ AG recognized in expenses for 2021 was €7,072 thousand (2020: €2,586 thousand). This consisted of short-term employee benefits of €5,268 thousand (2020: €2,362 thousand), other long-term benefits of €0 thousand (2020: minus €291 thousand), and share-based long-term benefits as part of the long-term incentive plans amounting to €1,804 thousand (2020: €515 thousand).

Remuneration for former members of the Board of Management or their surviving dependants pursuant to section 314 (1) no. 6a HGB amounted to €1,101 thousand (2020: €1,181 thousand) for DEUTZ AG and the Group. Provisions of €10,247 thousand (December 31, 2020: €10,657 thousand) have been recognized to cover pension obligations to former members of the Board of Management.

Review of whether Board of Management remuneration is typical The Supervisory Board reviews the level of the Board of Management's remuneration every two years in order to ensure that it is typical for the market and is competitive. This review involves checking and assessing factors such as whether the remuneration is typical in comparison with that of Board of Management members in similar companies and is typical in comparison with remuneration and employment conditions within DEUTZ. Companies are selected that are similar to DEUTZ, particularly in terms of the criteria country, sector, and size. Within DEUTZ, a comparison is made with the current situation and with the situation over time in respect of senior management and the workforce as a whole.

The remuneration of the Board of Management members was last reviewed in 2020 when the current remuneration system was being drawn up. It was found to be typical. Two peer groups were formed in order to assess whether the remuneration is typical in comparison with that in similar companies. The first peer group primarily consisted of German listed companies that were similar to DEUTZ in terms of sector, volume of revenue, and number of employees. The following companies were part of this peer group: Aumann AG, DMG MORI AG, ElringKlinger AG, Jungheinrich AG, KION GROUP AG, Knorr-Bremse AG, LEONI AG, Rolls-Royce Power Systems AG, Sulzer AG, VARTA AG, and Wacker Neuson SE. The SDAX was chosen as the second peer group because DEUTZ is listed on the SDAX.

C.2. REMUNERATION OF FORMER MEMBERS OF THE BOARD OF MANAGEMENT

The remuneration that was granted and owed to the former members of the DEUTZ AG Board of Management pursuant to section 162 (1) sentence 1 AktG amounted to €332 thousand in 2021. The remuneration granted and owed to Dr. Margarete Haase, who left in 2018, amounted to €55 thousand in 2021 and was entirely attributable to her fixed, non-performance-related retirement pension. Dr. Ing. Helmut Leube, who left in 2016, received a fixed, non-performance-related retirement pension of €78 thousand in 2021. The remuneration of the other former members, who stepped down from the DEUTZ AG Board of Management more than ten years ago, came to €199 thousand in 2021 and was entirely attributable to the granting of fixed, non-performance-related retirement pensions. The retirement pensions of former members of the Board of Management are granted entirely by the benevolent fund, not by DEUTZ AG.

C.3. DISCLOSURES ON THE RELATIVE CHANGE IN THE REMUNERATION OF THE BOARD OF MANAGEMENT, THE REMUNERATION OF THE REST OF THE WORKFORCE, AND THE COMPANY'S EARNINGS PERFORMANCE

The following table shows the year-on-year change in the remuneration granted and owed to the Board of Management members in the reporting year, the earnings performance of DEUTZ AG, and the remuneration of the workforce. The change in the remuneration granted and owed to the Board of Management members is based on the remuneration presented above (see section C. 'Amount of Board of Management remuneration in 2021', chapters 1 and 2, remuneration granted and owed). The earnings performance of the Company (DEUTZ AG) and of the Group (DEUTZ Group) is presented on the basis of EBIT, which is one of the main financial KPIs. The remuneration of the workforce shows the average remuneration of the Company's (DEUTZ AG's) salaried and non-salaried employees in Germany (excluding trainees, apprentices, and interns). To ensure comparability, the remuneration of part-time workers was extrapolated into remuneration for full-time equivalents.

The retirement pensions of the former members of the Board of Management Dr. Margarete Haase and Dr. Ing. Helmut Leube are paid by the benevolent fund, not by DEUTZ AG.

Year-on-year change (%)	2021 (absolute)	2021 vs. 2020	2020 vs. 2019	2019 vs. 2018	2018 vs. 2017
Board of Management remuneration					
Dr. Ing. Frank Hiller	€1,454 thousand	88.3 %	–47.2 %	–5.6 %	10.2 %
Dr. Ing. Markus Müller (since March 15, 2021)[1]	€823 thousand	–[1]	–	–	–
Dr. Sebastian C. Schulte (since January 1, 2021)[1]	€1,037 thousand	–[1]	–	–	–
Michael Wellenzohn	€1,083 thousand	75.6 %	–50.6 %	1.1 %	29.5 %
Dr. Andreas Strecker (March 1, 2018 to February 28, 2021)[2]	€207 thousand	–65.6[2]	–31.3 %	13.6 %	–[2]
Dr. Margarete Haase (until April 30, 2018)	€55 thousand	1.0 %	1.0 %	–95.9 %	25.8 %
Dr. Ing. Helmut Leube (until December 31, 2016)	€78 thousand	1.0 %	1.0 %	141.0 %	–90.0 %
Earnings performance of DEUTZ					
EBIT of DEUTZ AG	€36.6 million	131.9 %	–226.2 %	83.8 %	–68.1 %
EBIT of the DEUTZ Group	€37.2 million	134.9 %	–221.0 %	7.4 %	–43.0 %
Average remuneration of the DEUTZ AG workforce					
Workforce		–0.2 %	3.5 %	2.1 %	1.9 %

[1] As Dr. Ing. Markus Müller and Dr. Sebastian C. Schulte only joined the Board of Management in 2021, a comparison with their 2020 remuneration is not possible.
[2] As Dr. Andreas Strecker was a Board of Management member for the whole of 2020 but only part of 2021, the 2021 vs. 2020 comparison shows a sharp fall in the remuneration granted and owed to him. As he joined the Board of Management in 2018, there is no 2017 remuneration for comparison.

III. REMUNERATION FOR SUPERVISORY BOARD MEMBERS

A. REMUNERATION SYSTEM IN 2021

The remuneration system for the members of the Supervisory Board, which is governed by section 15 of the Company's Statutes, was adopted by the Annual General Meeting on April 26, 2018 and approved by the AGM with 99.65 percent of the votes on April 29, 2021. The remuneration of the Supervisory Board is structured so as to help to attract highly qualified people to the Supervisory Board and ensure that they remain with the Company. This means that the Supervisory Board can advise the Board of Management on the development of strategy and monitor the work of the Board of Management.

The annual remuneration of the Supervisory Board members consists of fixed basic remuneration, fixed remuneration for committee membership, and attendance fees for participating in meetings of the Supervisory Board and its committees. The basic remuneration and committee remuneration are paid annually after the end of the financial year, before the Annual General Meeting; the attendance fees are paid after each meeting attended.

Each ordinary member of the Supervisory Board is paid fixed basic remuneration of €40,000 each year. The chairperson of the Supervisory Board receives €80,000 and the deputy receives €60,000. Members of the Human Resources Committee and members of the Audit Committee receive an additional €12,000 per year, and members of the Nominations Committee and members of the Arbitration Committee receive an additional €8,000. The chairpersons of each committee receive double these amounts, and their deputies one-and-a-half times these amounts.

In addition, each member is paid an attendance fee of €1,500 for each Supervisory Board meeting and committee meeting attended. Furthermore, DEUTZ reimburses the members of the Supervisory Board for any VAT they incur in connection with the performance of their mandate and ensures that appropriate liability insurance is taken out (D&O insurance).

B. REMUNERATION GRANTED AND OWED IN 2021

The remuneration granted and owed to the members of the Supervisory Board in 2021 is shown below. Remuneration granted is the remuneration for which the related (one-year or multiple-year) work has been performed in full. Remuneration owed is when DEUTZ has a legal obligation to the Supervisory Board member that is due but has not yet been fulfilled.

In respect of the remuneration components in 2021, 'granted and owed' specifically refers to the following:

Remuneration granted and owed in 2021 (section 162 (1) sentence 2 no. 1 AktG)

Remuneration components
Fixed basic remuneration (promised for membership of the Supervisory Board in 2021)
Remuneration for committee membership (promised for membership of a committee in 2021)
Attendance fees (promised for attendance of meetings in 2021)

The remuneration granted and owed to all members of the Supervisory Board for 2021 totaled €897 thousand. The breakdown of the total remuneration by individual Supervisory Board member is shown in the following table:

	Fixed basic remuneration		Remuneration for committee membership		Attendance fees		Total remuneration
	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)
Dr. Ing. Bernd Bohr (chairman until February 12, 2022)	80.0	46.9	68.0	39.9	22.5	13.2	170.5
Corinna Töpfer-Hartung[1] (deputy chairwoman)	60.0	49.8	38.0	31.5	22.5	18.7	120.5
Sophie Albrecht[1]	40.0	60.2	16.0	24.1	10.5	15.8	66.5
Sabine Beutert[1]	40.0	53.7	18.0	24.2	16.5	22.1	74.5
Yavuz Büyükdag[1]	40.0	79.2	0.00	0.0	10.5	20.8	50.5
Dr. Fabian Dietrich[1]	40.0	79.2	0.00	0.0	10.5	20.8	50.5
Dr. Ing. Rudolf Maier	40.0	79.2	0.00	0.0	10.5	20.8	50.5
Hans-Peter Finken[1]	40.0	79.2	0.00	0.0	10.5	20.8	50.5
Patricia Geibel-Conrad	40.0	49.7	24.0	29.8	16.5	20.5	80.5
Alois Ludwig	40.0	55.6	20.0	27.8	12.0	16.7	72.0
Dr. Dietmar Voggenreiter (chairman since February 12, 2022)	40.0	79.2	0.00	0.0	10.5	20.8	50.5
Ali Yener[1]	40.0	66.7	8.0	13.3	12.0	20.0	60.0
Total remuneration	**540.0**		**192.0**		**165.0**		**897.0**

[1] Employee representative.

C. DISCLOSURES ON THE RELATIVE CHANGE IN THE REMUNERATION OF THE SUPERVISORY BOARD, THE REMUNERATION OF THE REST OF THE WORKFORCE, AND THE COMPANY'S EARNINGS PERFORMANCE

The following table shows the year-on-year change in the remuneration granted and owed to the Supervisory Board members in the reporting year, the earnings performance of DEUTZ AG, and the remuneration of the workforce. DEUTZ AG's earnings performance and the remuneration of its workforce are calculated in the same way as in the section on Board of Management remuneration.

Year-on-year change (%)	2021 (absolute)	2021 vs. 2020	2020 vs. 2019	2019 vs. 2018	2018 vs. 2017
Supervisory Board remuneration					
Dr. Ing. Bernd Bohr (since April 26, 2018; chairman from January 1, 2019 to February 12, 2022)	€170.5 thousand	4.6%	–2.7%	368.0%	–
Corinna Töpfer–Hartung[1] (deputy chairwoman since April 26, 2018)	€120.5 thousand	5.2%	–1.3%	43.0%	–
Sophie Albrecht (since April 26, 2018)	€66.5 thousand	4.7%	10.2%	45.0%	–
Sabine Beutert[1]	€74.5 thousand	6.4%	–4.1%	3.2%	48.9%
Yavuz Büyükdag[1] (since April 26, 2018)	€50.5 thousand	9.8%	–6.1%	36.9%	–
Dr. Fabian Dietrich[1] (since April 26, 2018)	€50.5 thousand	9.8%	–6.1%	36.9%	–
Hans–Peter Finken[1]	€50.5 thousand	9.8%	–6.1%	2.2%	27.8%
Patricia Geibel–Conrad (since April 26, 2018)	€80.5 thousand	5.9%	–3.8%	43.2%	–
Alois Ludwig	€72.0 thousand	–4.0%	2.0%	14.7%	70.9%
Dr. Ing. Rudolf Maier (since October 7, 2020)	€50.5 thousand	368.0%	–	–	–
Dr. Dietmar Voggenreiter (since April 30, 2019; chairman since February 12, 2022)	€50.5 thousand	9.8%	40.0%	–	–
Ali Yener[1] (since April 26, 2018)	€60.0 thousand	14.3%	–7.9%	38.2%	–
Earnings performance of DEUTZ					
EBIT of DEUTZ AG	€36.6 million	131.9%	–226.2%	83.8%	–68.1%
EBIT of the DEUTZ Group	€37.2 million	134.9%	–221.0%	7.4%	–43.0%
Average remuneration of the DEUTZ AG workforce					
Workforce		–0.2%	3.5%	2.1%	1.9%

[1] Employee representative.

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. In the face 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 to 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 identified 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. Since 2021, tail risks have been documented at least once a year as well. These are risks to the Company's survival as a going concern that have a very low probability of occurring. The Risk Management Committee analyzes the risks and the progress of the action that is being taken to minimize them and reports to the Board of Management on the results of the risk inventory. The Board of Management is presented with a risk aggregation at the same time. It is also shown, on an ad hoc basis, but at least once a year, a risk-bearing capacity statement focused on the Company's equity and liquidity.

To enable the Company to respond promptly at all times to any possible risks that may arise, the DEUTZ Group's risk officers and their staff are under an obligation to submit immediate reports to the risk coordinator detailing any new material risks or if there is an increase in the threat from risks that are already known. The risk coordinator would then notify the Board of Management accordingly.

The risk management system documents both risks and opportunities, and maintains a strict separation between the two.

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 Chief Financial Officer 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 prices, interest rates, and exchange rates. 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. DEUTZ manages the financial risk as follows:

Risk from bad debts We protect ourselves against the risk of bad debts by continually 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 an agreement, DEUTZ AG must ensure that the DEUTZ Group complies with certain financial covenants (ratio of financial debt to equity and to EBITDA). These agreed financial covenants allow sufficient financial 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 at an early stage 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. 177.

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. Since 2021, a 'best case', 'mid case', and 'worst case' has been considered for the assessed risks. 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 aggregated by risk category.

Unless otherwise stated, the risks refer to the relevant expected value for 2022, weighted by probability.

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 of the coronavirus pandemic on financial position and financial performance are taken into account in market risk and operational risk.

In addition, the outbreak of war between Russia and Ukraine represents an external risk for us. The current sanctions and any further sanctions imposed in the future, along with their direct impact on the global economy and the flow of goods around the world, may adversely affect our earnings. As a relatively small amount of our revenue is generated in Russia and Ukraine, very few of our suppliers are based there, and little of the freight relevant to us transits in or across these regions, we currently categorize the level of risk posed by the war between Russia and Ukraine with regard to the attainment of our targets as 'low' for 2022. At the time this report was being prepared, however, there was a great deal of uncertainty about the effects of the war and it is currently impossible to predict exactly what these effects will be.

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 the Construction Equipment and Material Handling application segments, which are our strongest drivers of revenue, and in our principal sales regions of Germany, western Europe, China and North America.

Our objective is to mitigate this cyclicality from a regional and application segment perspective in order to reduce its negative impact on our business performance.

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 long-term supply agreements. We therefore pursue a strategy of continually signing up new customers across all regions and progressively expanding our business with them. 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.

Despite the countermeasures that are in place, it is impossible to completely control external risks. In view of the measures in place, we categorize the level of market risk with regard to the attainment of our targets as 'low' in 2022 (2021: moderate).

STRATEGIC RISK

Based on the objective of broadening our customer and product base, our strategy focuses on a technology-neutral approach to the development of our engine portfolio and on regional growth initiatives, primarily in China. See also 'Strategy and objectives', p. 22 onward.

In pursuit of our overarching objective of pioneering carbon-neutral drive systems for off-highway applications, we focus not only on electrification in the advancement of our portfolio but also, in particular, on the development of internal combustion engines that can run on a zero-carbon basis by using sustainable energy sources such as hydrogen and e-fuels. See also 'Research and development', p. 28 onward.

Our product strategy presents us with numerous opportunities but is, of course, also associated with risks. For example, new product developments may not be as well received by customers as predicted or may not be able to compete with rival products. There is also the risk that markets and prices may change in unexpected ways. Strategic product collaborations may also impact negatively on the value of the assets on our balance sheet.

We attempt to mitigate the aforementioned risks by precisely analyzing the trends in our markets and by taking into account external market research. In our target markets, we also enter into close alliances with major customers and into long-term supply agreements and partner with companies that are leaders in these markets, as we are doing, for example, in the implementation of our China strategy. As part of our activities in the field of alternative drive systems, we enter into strategic collaborations on development and also expand our inhouse capabilities by making targeted acquisitions and strategic investments. At the end of 2021, for example, we acquired a stake in Blue World Technologies. Blue World develops, manufactures, and sells fuel cell stacks and reformers, among other products. The collaboration is centered around an exclusive distribution and after-sales service agreement for stationary fuel cell gensets powered by methanol. In 2021, we reached agreement with a regional utility company that the hydrogen engine we are developing will be piloted in stationary equipment for power generation. We also signed a signed a cooperation agreement with the German Aerospace Center (DLR) regarding a joint project focused on making construction sites more environmentally friendly. See also 'Research and development', p. 28 onward.

There is also the risk that our strategic projects do not progress as anticipated or are delayed. We closely monitor the strategic projects so that we are able to respond immediately to changes.

In view of the measures in place, we continue to categorize the level of strategic risk with regard to the attainment of our financial targets as 'low' for 2022.

OPERATIONAL RISK

Procurement risk Supply shortages at our suppliers may lead to delays in our own deliveries or even production downtime 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 but also in bottlenecks on the part of our suppliers, for example because of the current shortage of supply in the semiconductor sector. In addition, we see risks in the general economic and political situation and the associated paradigm shift within the automotive industry. Any resulting factory closures or discontinuation of products could also have a negative impact on our supply chain. Moreover, our earnings could be further dented if logistics and material costs are pushed up by longer replenishment lead times for bought-in parts, price increases at suppliers due to rising energy costs, and bottlenecks in freight and warehouse capacity. See also 'Procurement market', p. 36.

We seek to mitigate these risks by carrying out intensive supplier management, by continually negotiating with our suppliers, and by monitoring the market on an ongoing basis.

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 to the greatest extent possible.

In view of the measures in place, we continue to categorize the level of procurement risk with regard to the attainment of our financial targets as 'moderate' for 2022.

Production risk There is a risk that fluctuations in capacity utilization in production have a negative impact on our profitability. These could result not just from the level of dependency of our business model on the general economic situation or production delays due to material shortages but also from production downtime, for example because of the coronavirus pandemic, strikes, or machinery breaking down.

In 2020, DEUTZ drew up a comprehensive safety plan to prevent production from being disrupted by the coronavirus pandemic. This saw all workstations inspected as part of a special risk assessment and suitable safeguards, such as the installation of partitioning between individual workstations, introduced as a result. Working from home is still facilitated and even encouraged, especially for employees in administrative functions, and greater use is being made of virtual meetings as a means of reducing workplace contacts and thus minimizing the risk of infection. Since 2021, in addition to being able to carry out rapid tests at work, DEUTZ employees and their relatives have been given the option of being vaccinated at the Company's occupational healthcare center.

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 risk The DEUTZ Group is exposed to liability and warranty risks. Potential warranty claims and claims for compensation could have a negative impact on our financial position and financial performance. In addition, a change in supplier or a relocation of a supplier's operations presents a risk in terms of supplier quality.

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, and take action to minimize the risk in production start-ups, thereby reducing 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 2022.

OTHER RISKS

Cyber risk We are a technology-driven company that is heavily focused on research and development. We regard the continuing development of our engine portfolio with a focus on sustainable drive solutions 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 is also true of potential cyberattacks and the damage resulting from such attacks, which could harm our reputation.

We have put a series of measures in place to protect against cyber risks. As well as taking out insurance against cyber risks and providing 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 cyber risks as 'low'.

Legal and compliance risk 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 regulatory 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 inherently 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 formation 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 continue to categorize the level of legal risk as 'low'.

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.

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. Overall, the Company's risk-bearing capacity in terms of equity and liquidity is assured.

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 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

DEUTZ operates in a fast-paced market environment. The aforementioned risks that are associated with this have the potential to negatively impact on the attainment of its business objectives. However, opportunities are also presented that could have a positive effect on the objectives of the Group for 2022 and beyond. It is to be viewed as an opportunity, for example, that particular events or developments may result in a positive deviation from the planned objectives for 2022. Identifying and harnessing these opportunities is the responsibility of the individual operating segments of the Group and the Board of Management. From the beginning of 2022, opportunities are being collated and assessed centrally for the first time, as was already the case for the management of risks.

OPPORTUNITY ASSESSMENT

Since 2021, the assessment of opportunities in the DEUTZ Group has been based on the estimated probability of occurrence in conjunction with the potential impact of the opportunity on the business objectives. As with the assessment of risks, a 'best case', 'mid case', and 'worst case' are considered. In the following opportunity report for the DEUTZ Group, the opportunities are categorized as either 'low', 'moderate', or 'high'. Opportunities 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. Opportunities classified as 'moderate', however, would have a significant impact, of between €10 million and €50 million, and opportunities classified as 'high' would have a major impact, of over €50 million, on financial position and financial performance.

Unless otherwise stated, the opportunities refer to the relevant expected value for 2022, weighted by probability.

Growth strategy We are particularly focusing on three core elements as part of our overarching growth strategy: regional growth initiatives with an emphasis on China, expansion of the activities brought together under our new Green segment, and expansion of the high-margin service business.

Thanks to the implementation of our China strategy, we will be able to benefit more from the expansion of the world's largest individual market for construction equipment. The market share captured as a result will enable us to increase our unit sales and earnings. The joint venture with SANY and the alliance with BEINEI give us local manufacturing options and direct market access. There is also a continued focus on expanding the geographical reach of the service network in the world's biggest individual market. See also 'Strategy and objectives', p. 22 onward.

Reducing or limiting carbon emissions around the world is essential in the face of advancing climate change. For this reason, when adding to or refining our engine portfolio, we particularly focus on the use of drive solutions that offer a more climate-friendly alternative to the classic internal combustion engine or that can even be run on a carbon-neutral basis. This is not only enabling us to build on our competitive position, but also presents the opportunity to target new customer groups. See also 'Research and development', p. 28 onward.

We will also significantly expand our high-margin service business. Potential for growth here may stem in particular from new services and service products that are designed to increase customer loyalty and satisfaction. The focus is on expanding the use of digital technologies, broadening our global service network, and acquiring further service outlets. See also 'Strategy and objectives', p. 22 onward. We categorize the level of strategic opportunity with regard to the attainment of our financial targets as 'low' for 2022.

Market opportunities In our budget for 2022, we have anticipated a continuation of the challenging conditions due to the coronavirus pandemic. If the market environment brightens during the year, opportunities will open up in the market.

We categorize the level of market opportunity with regard to the attainment of our targets as 'low' for 2022.

Legal opportunity Based on the current status of ongoing cases and in view of the measures that have been taken, we categorize the level of legal opportunity as 'low'.

OUTLOOK

ECONOMIC OUTLOOK

GDP growth[1]

YoY change (%)

	2022	2023
Global	4.4	3.8
Developed economies	3.9	2.6
Eurozone	3.9	2.5
Germany	3.8	2.5
USA	4.0	2.6
Emerging markets	4.8	4.7
China	4.8	5.2

[1] IMF, World Economic Outlook Update, January 2022.

In its most recent forecast, the International Monetary Fund (IMF) lowered its expectations for 2022 by 50 basis points to 4.4 percent. This adjustment is due to the expected impact of the Omicron variant of coronavirus, in particular on the first quarter of 2022, and to bottlenecks in global supply chains. Looking ahead to the rest of the year, the negative effects of the Omicron variant should ease in the second quarter, leading the IMF to forecast significant GDP growth for 2022 overall.[1]

The expectations for 2023 underwent a moderate upward adjustment of 20 basis points to 3.8 percent. However, this is essentially a technical effect, based on the assumption that the adverse influences of 2022 will have run their course. On this basis, global trade is predicted to increase by 6 percent year on year in 2022 and by around 5 percent in 2023.[1]

The projected growth in global trade is set to be accompanied by a further recovery in commodity prices. This trend is likely to cause inflation to rise. The IMF estimates that inflation in the developed economies will increase from 3.1 percent in 2021 to 3.9 percent in 2022, while it is expected to reach 5.9 percent in the emerging markets (2021: 5.7 percent). Consequently, it must be assumed that the cost of capital for companies is going to increase as a result of rising interest rates.[1]

Fundamentally, it can be assumed that the emerging markets' growth after the coronavirus pandemic will once again outstrip that of the developed economies.

[1] IMF, World Economic Outlook Update, January 2022.

DIESEL ENGINES MARKET

DEUTZ customer industries: forecast for 2022

YoY change in unit sales (%)

	Europe	North America	China
Construction equipment[1]	+5 – +10	+5 – +10	0 – +5
Material handling[1]	+5 – +10	+5 – +10	+10 – +15
Agricultural machinery[2]	0 – +5	0 – +5	0 – +10

[1] Power Systems Research, OE Link Update Bulletin Q4 2021, January 2022.
[2] VDMA, Business Climate and Market Development Worldwide, January 2022.

Based on currently available figures, there will be very little change in the performance of key industries for sales of DEUTZ diesel engines for the off-highway segment in 2022. Overall, the markets have proven to be quite robust in the face of the pandemic. In some areas, they managed to fully compensate for the collapse in sales caused by supply bottlenecks and lockdowns by the end of 2021. While there was no severe impact on economic growth in the main industries served by DEUTZ in Europe, North America, and particularly China, the recovery is likely to be slowed down for the foreseeable future by the ongoing global bottlenecks in the supply industry. 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 2022 is likely to be moderate.

Demand for construction equipment is expected to continue to rise overall. In addition to a general upturn in the economy, the comprehensive support packages and investment programs approved by the European Commission and the Biden administration should ensure steady demand in Europe and North America over the coming years. In China too, the construction sector – a key driver of Chinese economic growth – is set to contribute to sustained demand for construction equipment, although probably with a lower rate of growth than in previous years as the market is showing signs of saturation.

Demand for material handling applications, especially forklift trucks, lifting platforms, and telehandlers, is also set to grow overall across all regions. The increase in demand in Europe and North America will continue to be driven in particular by equipment leasing companies investing in their fleets. After cuts in capital spending of up to 60 percent in some cases in 2020, it picked up significantly in 2021, and announcements for 2022 indicate that the level of capital investment will be high again.

Unit sales of agricultural machinery are set to benefit from persistently high prices for agricultural products worldwide and are therefore likely to continue to grow during 2022. Growth rates are expected to be in the low single digits. Bottlenecks in the supply chain are likely to slow down market growth in Europe, while in North America there are signs that the rate of growth will drop off after two years of strong sales. In China, sales of more powerful tractors, where demand is rising as a result of the recent agricultural reforms, are just starting to rise slowly.

The Chinese market for heavy duty trucks[1] is expected to contract further in 2022 and level out at around 1.2 million vehicles, matching pre-pandemic levels. The reasons behind this include the high inventory levels at customers who expanded their fleets before the introduction of the CN6 emissions standard in 2021. It is also uncertain whether the central government will incentivize the truck market in the same way that it has in the past, and how long the electricity and energy cuts it has ordered will last. This may have a negative impact on manufacturers' production figures.

[1] China Automotive Industry Association, January 2022.

PROCUREMENT MARKET

Commodity prices, energy prices, and transport costs increased at an extraordinary rate in 2021, and further significant price volatility is expected in 2022. This is primarily due to continuing uncertainty surrounding the coronavirus pandemic, rising inflation, and ongoing political debate on matters such as the transition to a carbon-neutral future.

The supply situation is expected to remain very challenging. This is because of ongoing allocation arrangements in the global market, for example in the semiconductor, steel, and plastics industries, and because of the ongoing coronavirus pandemic.

BUSINESS OUTLOOK FOR 2022

Given the sustained upward trajectory experienced in 2021 by the industries in which the Company's customers operate, we are expecting that customers' propensity to invest will continue to grow in 2022. Nevertheless, it should be borne in mind that there is a lot of uncertainty surrounding 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. At the same time, it is also impossible to anticipate developments in the global procurement market. The business outlook presented here was made on the basis of the information available at the end of February 2022.

UNIT SALES, REVENUE

Based on the forecasts outlined above and the assumption of ongoing bottlenecks in the supply chain, we expect unit sales of 165,000 to 180,000 DEUTZ engines[1] in 2022. This should result in an increase in revenue to between €1.70 billion and €1.85 billion, with the revenue attributable to the Classic segment accounting for between €1.60 billion and €1.75 billion. For the Green segment, which comprises all activities connected with the development and production of new, alternative drive solutions, such as electric or hydrogen-powered drives, we are expecting a revenue contribution of between €75 million and €100 million.

EARNINGS

If unit sales and revenue prove to be as described above, we expect the EBIT margin before exceptional items at Group level to be in a range of 3.5 percent to 5.5 percent. This span reflects the revenue range stated, as well as the fact that commodity prices and energy prices in particular are likely to remain highly volatile in 2022.

Looking at the individual segments, the EBIT margin before exceptional items for the Classic segment is expected to be between 4.5 percent and 6.5 percent, while the EBIT margin before exceptional items for the Green segment is likely to be in a range of minus 30 percent to minus 20 percent. However, it should be noted that in this segment, smaller revenues coincide with the increased level of investment that is required to build up our alternative drive system portfolio. See also 'Strategy and objectives', p. 22 onward, and 'Research and development', p. 28 onward.

In the outlook for 2021 in the 2020 report, DEUTZ anticipated payment of the final installment of the purchase consideration for the sale of the Cologne-Deutz site, which would have led to a positive exceptional item of around €60 million. Based on current information, this payment is now not expected to be made until 2023.[2]

Based on our earnings guidance, we believe that the return on capital employed (ROCE) before exceptional items in 2022 will be in the high single digits.

[1] Excluding electric boat drives from DEUTZ subsidiary Torqeedo.
[2] The amount and the timing 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.

RESEARCH AND DEVELOPMENT EXPENDITURE[1]

After deducting grants[2], we expect expenditure on research and development to be in the range of €75 million to €85 million in 2022. In addition to our R&D activities in the field of alternative drive systems, this money will primarily be spent on the ongoing development of our portfolio of engines with capacities of less than 4 liters, the development of our new TCD 5.2, and the upgrading of our engines to the China IV emissions standard. See also 'Research and development', p. 28 onward.

CAPITAL EXPENDITURE[3]

After deducting grants[2], our capital expenditure is likely to be in a range of €90 million to €100 million in 2022. The expected increase compared to 2021 is due, in particular, to stronger investment in the optimization of our production operations and in building up our portfolio of alternative drive systems. See also 'Production and logistics', p. 30 onward.

WORKING CAPITAL RATIO, FREE CASH FLOW, AND EQUITY RATIO

The average working capital ratio for 2022 is predicted to be between 15 percent and 17 percent.

Free cash flow is likely to be an amount in the low to mid-double-digit millions of euros.

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

EMPLOYEES

Staffing levels In 2020, as part of the Transform for Growth efficiency program, DEUTZ had initiated a reduction in the number of jobs across the Group with the aim of lowering staff costs. 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 for employees working at DEUTZ sites in Germany. It had been taken up by a total of 361 employees by the time that it finished. Of these, 50 employees are expected to leave the Company in 2022. 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] Grants from development partners and subsidies.
[3] Capital expenditure on property, plant and equipment (including right-of-use assets in connection with leases) and intangible assets, excluding capitalization of research and development expenditure.

OUTLOOK FOR 2023/2024

A degree of uncertainty hangs over the pace of the economic recovery given the ongoing coronavirus pandemic and the challenging situation in the global procurement market. In spite of this, DEUTZ is confirming its current medium-term targets for 2023/2024, which envisage an increase in annual revenue to more than €2.0 billion and an EBIT margin before exceptional items in the range of 7 to 8 percent.

Ongoing internationalization and the expansion of the service business, together with our technology-neutral approach to the development of our engine portfolio, will remain key growth drivers. The continued implementation of measures aimed at containing costs while raising efficiency will further underpin our profitability going forward. See also 'Transform for Growth', p. 25.

As part of its electrification strategy, DEUTZ had set itself the target of raising the proportion of consolidated revenue generated by E-DEUTZ to between 5 and 10 percent by 2023/2024, but this has been revised due to the introduction of the new segment reporting structure. The new target is for the proportion of consolidated revenue generated by the Green segment to reach between 5 and 10 percent over the same period. See also 'Strategy and objectives', p. 22 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 labeled accordingly. The reporting period is the 2021 financial year.

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. See also 'Materiality assessment', p. 95 onward.

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

Material topics in connection with aspects other than the non-financial aspects defined in accordance with HGB were not identified.

The **German Sustainability Code** serves as the framework for this report. The content, for example, is based in part on the underlying aspects of the Code's criteria and in particular criteria 1–3, 5–9, 13–15, 17–18, and 20.

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 2021 do not form part of the non-financial report.

Information on the Taxonomy Regulation (EU) 2020/852 In accordance with Article 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 ('EU Taxonomy Regulation'), any company that is required to publish non-financial information pursuant to Article 19a or Article 29a of Directive 2013/34/EU must disclose in its non-financial statement how and to what extent its activities are associated with economic activities that qualify as environmentally sustainable in the sense of Article 3 and Article 9 of the EU Taxonomy Regulation. In order to fulfill this requirement, DEUTZ will from now on be disclosing the relevant information in its non-financial report. See also 'Information on the Taxonomy Regulation (EU) 2020/852', p. 119 onward.

Progress report on the implementation of the UNGC principles DEUTZ has to submit a progress report once a year to meet its requirements as a member of the **United Nations Global Compact** (UNGC). The **Communication on Progress (CoP)**, as the report is called, describes the practical actions that the Company has taken or plans to take in support of the ten **UNGC principles**. This non-financial report serves as DEUTZ's CoP, with the scope of its content corresponding to that of **GC Active CoP**. See also 'UN Global Compact and sustainable development goals', p. 123 onward.

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. See the combined management report, p. 78 onward, for information on risks and opportunities.

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). See p. 126 onward for the limited assurance engagement and the findings of the review.

BUSINESS MODEL

The DEUTZ Group's core competencies are the development, production, and distribution of drive solutions for off-highway applications. The Company was founded in 1864 and has around 4,600 employees worldwide. Its 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. DEUTZ also offers a comprehensive range of analog and digital services through more than 800 sales and service partners in over 130 countries. See the combined management report, p. 22 onward, for further information on strategy and objectives.

Portfolio of technology-neutral drive systems for different application segments

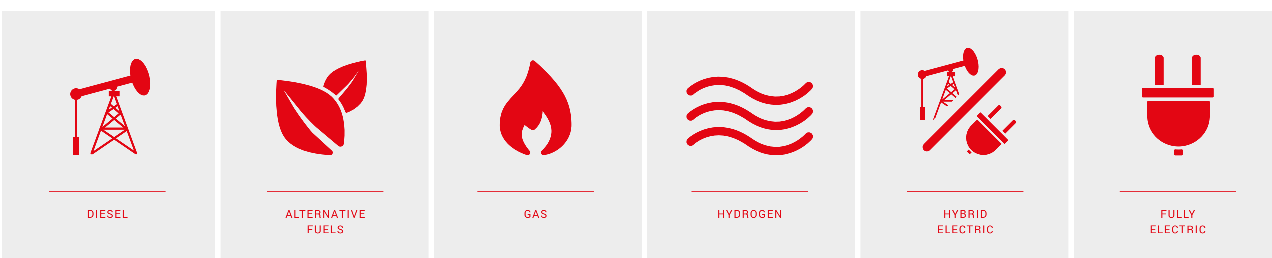
Construction machinery

Material handling

Agricultural machinery

Stationary systems

Other



SUSTAINABILITY ORGANIZATION AND MANAGEMENT

Sustainability is firmly anchored at senior management level in the DEUTZ Group, and overall responsibility lies with the Chairman of the Board of Management. The Sustainable Development Committee (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.

The SDC reports to the Board of Management at least quarterly on progress with implementation of the sustainability strategy and on changes to its content. This reporting includes an update on the current situation with regard to the non-financial KPIs. The objective, as part of a preventive risk management approach, 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. 98 onward.

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

Member of the Board of Management responsible for sustainability
Dr. Sebastian Schulte, CEO

Supervisory Board

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 Environ-ment

Local representatives at the subsidiaries

In 2021, in addition to the quarterly SDC meetings, DEUTZ held an interdepartmental CSR workshop. The aim of the workshop was to come up with new measures with which to achieve both the quantitative and the qualitative sustainability targets and to outline new targets for 2026. The specific targets will be defined in 2022 and published in the 2022 non-financial report. In addition, the workshop participants evaluated which of the 17 global **sustainable development goals** (SDGs) from the UN's 2030 Agenda should be prioritized, taking into account the specific targets under the goals, and what action DEUTZ can take to help achieve them. See also 'UN Global Compact and sustainable development goals', p. 122 onward.
A separate SDC meeting was held to examine any negative effects that the Company's own business activities might have on the SDGs.

Sustainability as a component of Board of Management remuneration In accordance with the German Corporate Governance Code, remuneration for the Board of Management must be aligned with the sustainable, long-term growth of the Company and contribute to the delivery of the business strategy. The DEUTZ Group's sustainability strategy forms an integral part of the overarching corporate strategy, which means that incentives need to be put in place to ensure that it is implemented rigorously. For this reason, the remuneration system for the Board of Management, which was revised in the reporting year and approved by the Annual General Meeting in April 2021, includes a sustainability target with effect from January 1, 2021. The specific performance criteria for the sustainability target, which applies not only to the Chairman of the Board of Management but to all its members equally, are specified on an annual basis by the Supervisory Board. These criteria relate to environmental and climate targets, alternative drives, corporate governance, occupational health and safety, diversity, personnel development, and supply chains. The structure of the current remuneration system is publicly accessible in the Corporate Governance section of the DEUTZ website. See also 'Remuneration report', p. 56 onward.

The Board of Management and/or the SDC management update the Supervisory Board, in its function as an oversight body, at least once a year on developments in the Company's sustainability activities and on the progress of implementation, for example in regard to changes to reporting requirements.

MATERIALITY ASSESSMENT

In 2021, the SDC and the Board of Management confirmed the findings of the 2020 materiality assessment and thus that DEUTZ continues to regard certain overarching 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 HGB. These topics are product stewardship, HR management (including occupational health and safety), corporate governance and compliance, supplier management, and environmental and climate protection. DEUTZ reports on its corporate citizenship activities on a voluntary basis. See also the 2020 non-financial report – 'Materiality assessment', p. 72 onward, for further information on the materiality assessment carried out in 2020.

Internal and external stakeholder survey The materiality assessment was previously carried out by the members of the SDC on the basis of the DEUTZ Group's business activities, the corporate philosophy, the principles of the UN Global Compact, and the **Women's Empowerment Principles**.

At the end of 2021, a questionnaire-based stakeholder survey was conducted so that the views of further internal but particularly external stakeholders could be taken into account in the next phase. This was used to determine the specific individual topics that are regarded as material in respect of the aforementioned overarching topics. In order to ensure that a broad spectrum of potentially relevant individual topics are covered, the questionnaire also included those that have previously not been covered by either the groupwide sustainability strategy or the non-financial reporting. These topics were identified by analyzing the non-financial reports of certain peer group companies. The respondents also had the option of naming, in a free-text field, any further sustainability topics that they considered to be material.

The questionnaire was given to two main groups of stakeholders: representatives of the Group's workforce across various hierarchy levels, who evaluated the individual topics from the perspective of the Company, and external stakeholders – customers, suppliers, analysts, and investors as well as experts from trade associations and networks focused on sustainability issues.

The findings of the internal and external stakeholder questionnaire, which also forms the basis of the materiality assessment for 2022, will be published in the 2022 non-financial report.

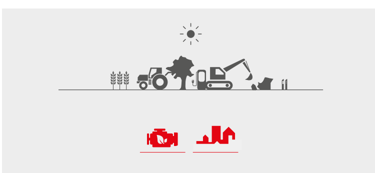
Frequency of the materiality assessment The sustainability topics that are found to be relevant by the materiality assessment not only determine the scope of the non-financial report, they also form the main components of the groupwide sustainability strategy. This is based on the belief that any topics regarded as material (in terms of how the Company's business activities affect the non-financial aspects defined in accordance with HGB) are also those that will have a bearing on the sustainable growth of the Company. In view of the fact that DEUTZ partly derives its medium-term sustainability strategy from its materiality assessment, the Company decided at the end of 2021 that it would involve external and internal stakeholders in all its materiality assessments going forward and always in conjunction with the definition of new medium-term targets. The members of the SDC will continue to conduct an annual internal review of the materiality assessment. Relevant information will be added to the non-financial report if this is required due to extraordinary events or developments, such as the outbreak of the coronavirus pandemic in 2020. The content of the non-financial report is also enhanced through ongoing analysis of sustainability-related questionnaires completed by customers and rating agencies, for example. This ensures that any information that is routinely surveyed but that DEUTZ itself does not yet report on can be added to the report on an annual basis, thus continually enhancing the level of transparency in the interests of the stakeholders.

SUSTAINABILITY STRATEGY AND OBJECTIVES

The name of the groupwide sustainability strategy, Taking Responsibility, reflects the Company's ambition of achieving its financial objectives while fulfilling its social, corporate, and environmental responsibilities. Consequently, the DEUTZ Group's sustainability activities are divided into three fields of action to which the relevant key topics are assigned. All of the quantitative targets that DEUTZ set in 2019 under its sustainability strategy are brought together in the DEUTZ Sustainability Vision for 2023.

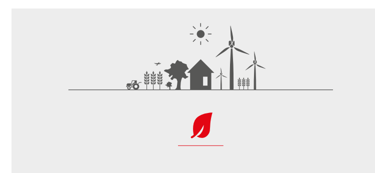
Taking Responsibility – DEUTZ's sustainability strategy

Social responsibility



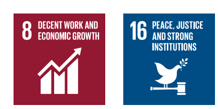
Corporate responsibility

Environmental responsibility



Product stewardship

Corporate governance and compliance



Corporate citizenship

HR management | Occupational health and safety

Environmental and climate protection

Supplier management

DEUTZ Sustainability Vision 2023 at a glance

Key topics	Corresponding KPIs	Targets for 2023	Status in 2021
Corporate governance and compliance	■ Proportion of workforce to have completed compliance training[1]	> 95 %	99.1 %
HR management	■ Proportion of women in the workforce[2]	> 10 %	13.0 %
	■ Proportion of women in management positions[3]	> 20 %	11.4 %
	■ Ratio of trainees to total employees[4]	2.5–3.0 %	2.7 %
	■ Engagement[5]	78 %	–
	■ Enablement[5]	69 %	–
	■ Rate of staff turnover[6]	5 – 10 %	10.5 %
Occupational health and safety	■ Recordable incident rate[7]	7	9.4
Supplier management	■ Proportion of new suppliers to have had their compliance with the supplier code of conduct verified	90 %[9]	83 %
	■ Number of existing suppliers to have had their compliance with the supplier code of conduct verified[8]	55	16
	■ Proportion of suppliers assessed against sustainability criteria	50 %[10]	55 %
	■ Suppliers that have passed business partner compliance checks	90 %[11]	11 %
Product stewardship	■ Share of consolidated revenue attributable to E-DEUTZ products	5 – 10 %[12]	3.3 %
Environmental and climate protection	■ CO_2 emissions from production sites (tonnes CO_2e)[13]	– 20 %[16]	– 61 %
	■ CO_2 emissions from production sites per manufactured engine (kg CO_2e)[14]	– 20 %[16]	– 65 %
	■ Nitrogen oxide emissions from production sites per manufactured engine (kg)[15]	– 3 %[17]	+ 103 %
	■ Particulate emissions from production sites per manufactured engine (g)[15]	– 3 %[17]	+ 21 %
	■ Waste for disposal	– 10 %[17]	– 20 %

1 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 either Chinese, English, French, German, Italian, Russian, or Spanish, as the e-learning modules are available only in these languages. 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.

2 including staff on fixed-term contracts but excluding temporary workers.

3 including staff on fixed-term contracts but excluding temporary workers, second level below the Board of Management.

4 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.

5 Measured using a groupwide employee survey (all employees within the Group including staff on fixed-term contracts but excluding temporary workers), which was first carried out in 2019 and will be repeated every three years going forward.

6 Relates to all employees within the DEUTZ Group, excluding staff on fixed-term contracts and temporary workers. The calculation includes both resignations and dismissals.

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 Existing suppliers as at the end of 2019. Verified by way of on-site audits.

9 90 % of the suppliers brought on board between 2020 and 2023.

10 50 percent of the top 150 suppliers as measured by DEUTZ's purchasing volume in the prior year.

11 Existing suppliers with which DEUTZ's purchasing volume for the prior year exceeded €0.5 million.

12 Target for 2023/2024.

13 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.

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 2017.

17 Base year 2019.

CORPORATE RESPONSIBILITY

CORPORATE GOVERNANCE AND COMPLIANCE

DEUTZ understands good corporate governance and **compliance** to mean acting responsibly and in accordance with the laws of the countries in which it operates. It also understands this to mean showing integrity and adopting an ethical and moral approach in day-to-day business conduct toward not only business partners 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 preventing or limiting the manifestation of 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. He appoints the Compliance Officer, and together they appoint 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. No confirmed cases of corruption were identified within the DEUTZ Group in 2021.

DEUTZ code of conduct and topic-specific organizational policies | UNGC 1–6, 10 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 available in seven languages.

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 under Compliance.

E-learning courses and classroom-based training | UNGC 1–6, 10
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[1] are assigned training modules that they are asked to complete within the space of a 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. Disciplinary action may be taken if an employee fails to participate in the e-learning, and they will still have to complete it the following year but in a shorter period of time.

[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 regularly reviewed and expanded with new topic areas as needed. In addition to the fixed modules covering occupational health and safety, fair competition, and anti-corruption, the program includes a further module that alternates annually between data protection and information security. In 2021, a new module on emissions compliance was introduced for employees working in sales and in development.

By the end of 2021, a total of 3,208 (99.1 percent) of all administrative employees 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]

%

	2021	2020	2019	2018[2]
Proportion of workforce to have completed compliance training	99.1	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.

Employees in 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 provided every year for non-administrative employees, most of whom work in the plants. This training did not take place in 2021 due to the ongoing coronavirus pandemic.

Whistleblowing system | UNGC 1–2, 3–6, 10 To identify, at the earliest possible stage, behavior that violates laws or regulations and to immediately put a stop to any proven misconduct, DEUTZ has established a publicly accessible whistleblowing system 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, such as suppliers, on the Company website at www.deutz.com/en under Compliance. Strict secrecy and confidentiality are guaranteed both for whistleblowers and for 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 under Compliance.

No confirmed human rights abuses were reported via the whistleblowing system in 2021.

Business partner compliance tool | UNGC 1–6, 10 DEUTZ expects not only its employees to act in compliance with the law but also its business partners. At the end of 2020, DEUTZ implemented an IT-based business partner compliance tool that enables it to respond appropriately and at an early stage to matters such as suspected money laundering, anti-competitive practices, corruption, or bribery on the part of its business partners. The tool provides a web-based self-declaration form that business partners are asked to fill out and then checks both the company itself and the members of its governing 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. To support these mandatory checks carried out with the business partner compliance tool, DEUTZ issued a groupwide business partner compliance policy when the tool was introduced.

Since the end of 2020, the business partner compliance tool has been used at the sites in Germany 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 tool will be rolled out to DEUTZ companies based outside Germany in the medium term.

In 2021, a total of 118 existing business partners were migrated to the business partner compliance tool. In one case, findings identified during this process resulted in existing contracts no longer being fulfilled.

Risk management Dealing responsibly with risks is an important part of good corporate governance. The Board of Management holds primary responsibility for groupwide risk management. With the help of DEUTZ's internal risk management system, it 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. Corporate Audit evaluates the system at regular intervals to verify whether it is functioning effectively.

The DEUTZ Group generally conducts risk inventories four times a year. The Treasury department is responsible for identifying, assessing, and hedging financial risks as part of this. See also the risk report in the combined management report, p. 78 onward. Non-financial risks that arise as a result of the Company's own business activity, business relationships, and/or products and services and that could have a negative impact on the non-financial aspects defined in accordance with HGB are identified and evaluated at the end of each year, with SDC management initiating the identification process. Integration into the Group's regular, system-based risk inventory is planned in the medium term. Risks related to the achievement of non-financial KPIs are also examined manually and are reported to the Board of Management on a quarterly basis.

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.** See p. 212 onward for the corporate governance declaration for DEUTZ AG and the Group and for the corporate governance report. In addition, the declaration of conformity issued by the Board of Management and Supervisory Board is published on the Company website at www.deutz.com/en under Corporate Governance.

Stakeholder engagement and dialog A stakeholder is considered to be any person, organization, or company with which DEUTZ maintains relations or is in dialog or that has an interest in, and seeks dialog with, DEUTZ. Shareholders are an important stakeholder group. The shareholders of DEUTZ AG routinely exercise their rights of membership and rights of codetermination at the Annual General Meeting. The Annual General Meeting decides on matters such as the appropriation of profit and the formal approval of the actions of the Board of Management and Supervisory Board. It also elects shareholder representatives to the Supervisory Board. See 'Composition of the Supervisory Board', p. 200. In addition, the Annual General Meeting rules on matters pertaining to the legal basis of the Company, such as amendments to the Statutes or corporate actions. It also passes advisory resolutions for the approval of the remuneration system for the Board of Management submitted by the Supervisory Board and for the details of the Supervisory Board's remuneration, and recommendatory resolutions for the approval of the remuneration report for the previous year.

With regard to general capital market communications, DEUTZ undertakes to comply with the transparency guidelines in the German Corporate Governance Code, always communicating with private shareholders, investors, financial analysts, and all other interested capital market players comprehensively, promptly, and openly. Each quarter, for example, a conference call for investors and analysts and one for journalists are held to coincide with the publication of the Company's latest financial results. The Board of Management and the Investor Relations management team are also available for talks with interested parties from the capital markets at conferences, roadshows, and private meetings. Other current developments and significant events are communicated by means of press releases. DEUTZ also proactively seeks to engage in ad hoc dialog with proxies, for example, in order to discuss matters such as their expectations or the business decisions that have been made and to jointly reflect on the underlying reasons.

HR MANAGEMENT

At the end of 2021, the DEUTZ Group employed a total of 4,751[1] people. They are based in more than 15 countries and therefore subject to different local conditions, requirements, and legal systems. 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.

Number of employees by region[1]

	2021	2020
Europe	4,123	4,028
thereof Germany	3,273	3,302
Americas	339	302
Brazil	24	22
Australia	19	18
Asia-Pacific	37	36
Morocco	69	67
China	140	113
Total	**4,751**	**4,586**

[1] Full-time equivalents (FTEs); excluding temporary workers.

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, which facilitated a standardization format for employee master data at the sites of DEUTZ AG, took place in 2020. As of 2021, this has also been facilitated for the site in the USA. The standardization of the format of employee master data at the Spanish subsidiary was originally also meant to take place in 2020. However, because of resource bottlenecks and changes to the company's management, implementation is now scheduled for 2022.

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.

Corporate culture | UNGC 1, 3–6 DEUTZ strives to create a respectful and non-discriminatory working environment for all employees – regardless of their age, ethnicity, nationality, gender, gender identity, physical and mental capabilities, religious beliefs and worldview, sexual orientation, or social background. To lend weight to this endeavor, DEUTZ ratified Germany's Diversity Charter in 2021. The Company thus pledges its commitment to cultivating an organizational culture characterized by mutual respect and appreciation and to creating the foundations on which employees can acknowledge and share these values and put them into practice.

The DEUTZ code of conduct is the primary means of providing employees with guidance on how to conduct themselves with integrity in their day-to-day work. It contains mandatory rules for behavior, whose aims include creating a working environment that is free of discrimination, bullying, and harassment. The code of conduct applies across the Group and must be adhered to by all employees. See also 'Corporate governance and compliance', p. 98 onward.

In addition, DEUTZ attaches a high priority to maintaining a corporate culture that is shaped by team spirit and a sense of responsibility, and that fosters a culture of innovation. This corporate culture is encapsulated in the five corporate values of the DEUTZ Group.

DEUTZ Corporate Values

Representation of interests and codetermination | UNGC 3, 6
Pay-scale employees in Germany, who make up the majority (92 percent[2]) of the Group's workforce, are subject to the collective pay agreement of the metalworking and electrical engineering industry. Their interests are represented by the works councils at the individual sites. A key task for these work councils is to monitor whether DEUTZ AG is fulfilling its responsibility to society as an employer. To enable them to perform this task, they are afforded the right to be informed about certain decisions and actions of the employer and to participate and have a say in them. HR matters such as working hours, pay, and occupational health and safety are among the key issues that are subject to this codetermination process. The works councils of DEUTZ AG therefore get involved in all employee-related matters regarding recruitment, remuneration, reassignment, and dismissal. Their primary

[1] Full-time equivalents (FTEs); excluding temporary workers.

[2] Percentage calculated on the basis of full-time equivalents (FTEs); excluding temporary workers.

objective is to agree mutually acceptable rules and arrangements for the matters at hand. The rights and obligations of the works councils in Germany are derived from the Works Constitution Act. An independent works council represents the interests of the Spanish employees at the site in Zafra.

The particular interests of staff with disabilities or equivalent impairments are additionally monitored and protected by a disabled persons' representative. Performing a similar role to that of the works council, this individual ensures that DEUTZ AG enforces the laws, collective pay agreements, and works agreements that are in place to benefit disabled employees. In 2021, to the best of its knowledge, the Company employed a total of 162 people with disabilities or equivalent impairments.

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.

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. DEUTZ endeavors to provide its employees with a working environment that, at every stage of their working life, motivates and empowers them. The measures offered by DEUTZ AG in this context include fair pay, paid vacation, flexible working time models for balancing work with family life, a comprehensive training and development program, the agreement of individual targets, a wide variety of healthcare and sports programs, and an equality-friendly management culture.

The bonus-driven ideas management scheme is a further tool for motivating the workforce to make a proactive contribution to the success of the Company. It allows any employee at DEUTZ AG to put forward ideas for discussion, such as how to improve product quality, enhance the portfolio of drive systems and services, make the working environment more efficient, and optimize existing processes. Not only does this help to foster a culture of innovation in the Company, but it can also increase employees' motivation and give them a greater sense of empowerment, for example because they can suggest ways to improve their working conditions. A total of 602 ideas were submitted in 2021. DEUTZ Spain has also established an ideas management system. The employees there submitted a total of 15 ideas via the system in 2021.

Diversity and equality-friendly management culture | UNGC 1, 6 Diversity in society, influenced by globalization and by demographic and societal shifts, is also reflected in the world of work. DEUTZ firmly believes that having a diverse set of employees with different skills and talents opens up opportunities for innovative and creative solutions while also providing access to a wider pool of talent. It attaches a high priority to increasing the proportion of women in the Company, for example. Recruitment decisions should therefore be made solely on the basis of the candidate's professional suitability and there should be equal pay for women and men. This means that an employee's remuneration is essentially determined by their personal and professional qualifications and by the responsibilities assigned to them. For the 92 percent of employees covered by a binding collective pay agreement, gender-specific differences in salaries for equal tasks are excluded from the outset.

DEUTZ has set itself the target of increasing the proportion of women in the workforce as a whole to more than 10 percent and the proportion of female managers to more than 20 percent, in both cases by the end of 2023.

DEUTZ Group: Proportion of women

%

	2021	2020[3]
Proportion of women in the workforce[1]	13.0	12.1
Proportion of women in management positions[2]	11.4	11.4

[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.
[3] The proportion of women in the workforce as a whole and in management positions was first recorded in 2020.

In 2021, women made up 13.0 percent of the total workforce, meaning that the medium-term goal was exceeded again during the reporting period. At 11.4 percent, the percentage of women in management positions remained the same as in 2020.

Internal communications DEUTZ uses various communication channels to ensure its employees are fully up to date on all the latest news. These channels include letters to staff, the intranet, the regular myDEUTZ employee magazine, and the employee app DEUTZ Mobile. This app gives access to a wide range of information about DEUTZ and can be downloaded by all employees of DEUTZ AG (and, since 2021, by employees of the Spanish subsidiary DEUTZ Spain) on their personal or work smartphones and/or tablets. In terms of analog formats, an annual works meeting is held at the DEUTZ AG sites, at which the Board of Management and works council inform employees of current developments.

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 objective is to use the resulting insights to define specific measures that can motivate and empower employees to realize their potential as fully as possible. The employee survey, which is to be conducted at three-year intervals, is taking place for the second time in 2022.

The first employee survey, carried out in 2019, found that 78 percent of DEUTZ employees were motivated (engagement) and 69 percent felt empowered to do their work (enablement).[1] Based on these results, DEUTZ compares favorably with other companies in Europe, and so it has set itself the target of maintaining these levels up to 2023.

Training DEUTZ attaches great importance to training. The Company's success in this area is evidenced by the fact that, in 2021, the Cologne Chamber of Industry and Commerce recognized its training center at the headquarters in Cologne, the Factory for Talents, for its outstanding achievements in vocational training for the eleventh time in succession. Moreover, the German Chamber of Industry and Commerce named two DEUTZ apprentices as the best examinees in their respective vocations in Germany. In 2021, a total of 30 apprentices embarked on careers in five different vocations at DEUTZ AG.

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

%

	2021	2020	2019	2018	2017[2]
Ratio of trainees to total employees	2.7	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.

In 2021, the ratio of trainees to total employees was 2.7 percent. The year-on-year decline is due to the fact that the total number of apprentices at the end of 2021 was below the level in 2020, as comparatively more apprentices completed their training in 2021. This is because the length of apprenticeships can vary depending on the particular vocation.

DEUTZ has set itself the target of maintaining the ratio of trainees to total employees at between 2.5 percent and 3.0 percent up to 2023.

Personnel adjustment as part of Transform for Growth In 2020, DEUTZ launched an organization-wide efficiency program called 'Transform for Growth' in order to maintain the Company's long-term competitiveness. By implementing all defined restructuring, process improvement, and cost reduction measures, DEUTZ intends to achieve gross annual cost savings of around €100 million compared with the base year of 2019. In addition to an adjustment in operating costs, the announced savings are to be achieved through a reduction in staff costs. To this end, DEUTZ introduced a voluntary redundancy program in September 2020 for its sites in Germany, originally for 350 employees. By the time that the program ended on March 31, 2021, it had been taken up by a total of 361 employees, 133 of whom had left the Company by December 31, 2020.

The top priority was to minimize the social impact of the reduction for all employees. Agreement was therefore reached with the employee representatives on a key issues paper in the third quarter of 2020 that covered the voluntary redundancy program, 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.

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 ('DEUTZ pact for innovation and the future') 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.
See also 'Transform for Growth', p. 25 in the 2020 Annual Report.

In 2021, restructuring costs totaling €3.1 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. 152.

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

Staff turnover DEUTZ believes that a healthy rate of staff turnover, while retaining the services of experienced workers in the organization, should also recognize that new employees bring with them new perspectives that can help a company to develop and improve its ability to innovate. Our HR activities are therefore aimed at ensuring the groupwide rate of staff turnover is within a range of 5 to 10 percent up to 2023. This target was not adjusted as a result of the global efficiency program and the accompanying reductions in the number of jobs.

DEUTZ Group: Staff turnover[1]

%

	2021	2020
Rate of staff turnover	10.5	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 2021, the rate of staff turnover for the DEUTZ Group was 10.5 percent. This increase compared with the prior year was mainly due to employees leaving as part of the voluntary redundancy program.

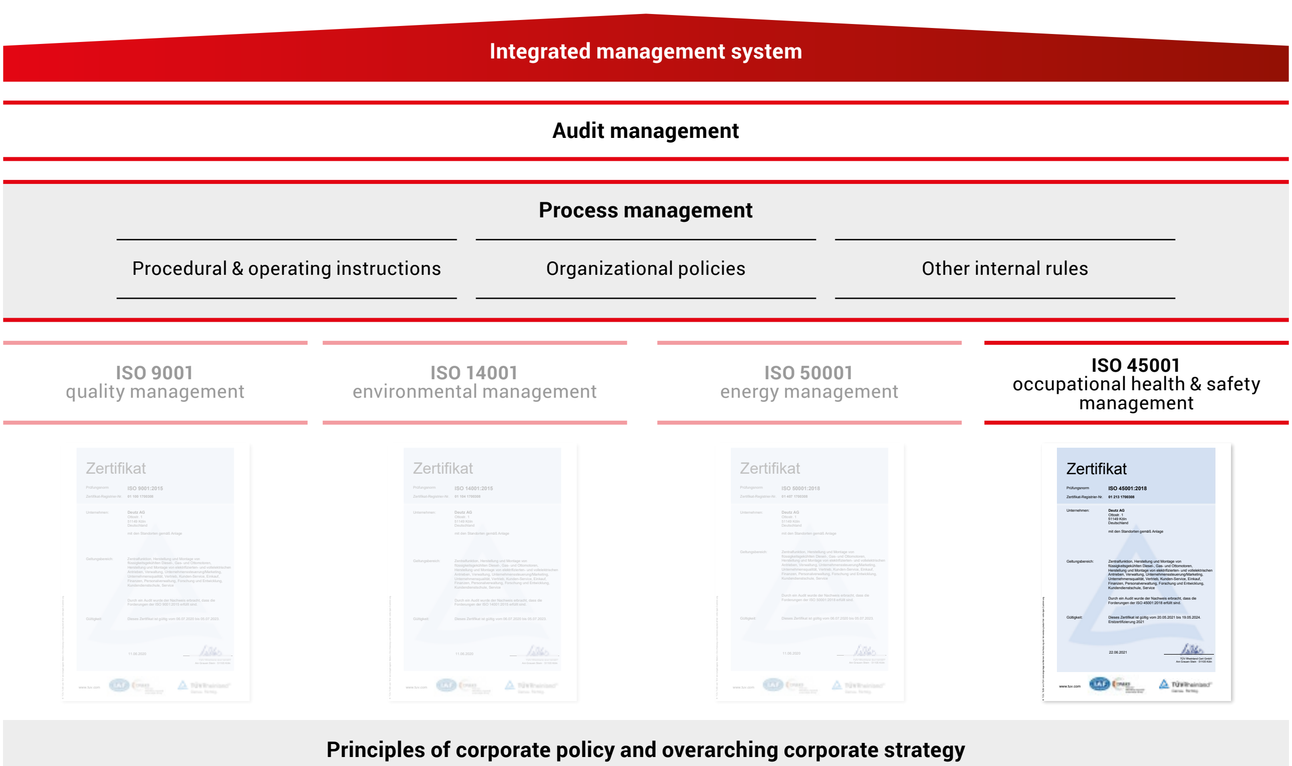
OCCUPATIONAL HEALTH AND SAFETY

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, the Company therefore complies with the statutory requirements on occupational health and safety that apply from country to country and implements measures based on local circumstances.

At present, occupational health and safety within the DEUTZ Group is still largely managed at local level. This means that, unless indicated otherwise, the following information essentially relates to the sites of DEUTZ AG, where the majority of the Group's workforce – around 65 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.

Integrated management system DEUTZ AG's integrated management system (IMS) specifies the rules and processes for certain organization-wide functions and thus provides the basis for collaboration between all employees. The IMS is grounded in the general principles of the corporate policy as well as the overarching corporate objectives. Its functioning is subject to regular review by internal audit management as the monitoring body.

[1] Percentage calculated on the basis of full-time equivalents (FTEs); excluding temporary workers.



After it had been established as the system for quality and environmental protection across the DEUTZ Group, the IMS was extended to cover the ISO 45001 occupational health and safety management standard at the Cologne-Porz and Cologne-Kalk sites in 2021.

Management of occupational health and safety and ISO 45001 certification | UNGC 1 In 2021, the IMS that has been established in Germany was extended to cover occupational health and safety. This entailed a matrix certification process, starting with the Cologne sites in accordance with the global ISO 45001 standard. ISO 45001 sets out the requirements for an effective system for managing occupational health and safety. The next step will involve assessment of the German sites in Ulm and Herschbach by the certification auditors in 2022/2023. The production site in Zafra, Spain, has held ISO 45001 certification since 2019. Based on the number of people employed at production sites across the Group, the ISO 45001 certification covered 75 percent of the Group's workforce as at December 31, 2021.[1]

The management of occupational health and safety in accordance with the requirements of DIN ISO 45001 is organized by the Health, Safety, and Environment department. Its overarching objective is to protect the health of employees over the long term while ensuring, as a consequence, that they can continue to perform to the required level. In addition to general preventive measures (for example those initiated as a result of near misses), its main tasks include the ongoing analysis and evaluation of potential hazards and the specification of suitable countermeasures to minimize risk.

Risk assessments and health and safety inspections | UNGC 1
Internal risk assessments and subsequent inspections play an integral role in how workplace safety is managed at DEUTZ AG and its Spanish subsidiary, DEUTZ Spain. The frequency with which these take place depends on the extent and type of the risk presented by the machinery or workspace. Any issues identified are documented in action plans that specify a timeframe for remedial measures to be taken. In addition to internal audits, there are also audits conducted at regular intervals by the authorities as well as health and safety inspections.

Handling of hazardous substances | UNGC 1 DEUTZ uses hazardous substances in its engine production that could cause harm to people and the environment if they are not handled properly. DEUTZ AG manages hazardous substances in such a way that the related hazards are either avoided entirely through the use of substitutes or reduced to a minimum as a result of technical and organizational measures.

In 2021, DEUTZ AG found substitutes for 388 hazardous substances, which reduced the total that it uses from 1,205 to 817. Other measures included the establishment of processes for hazardous substance approval and the development of training in the form of manuals. The latter are intended to provide employees with instructions on how to safely handle hazardous substances.

Whereas the priority with regard to hazardous substances has up to now been on establishing approval processes, the next step will focus on purchasing.

Occupational healthcare center and cooperating company doctors
Measures to protect employees' health are managed and offered centrally by the occupational healthcare center at the headquarters in Cologne and the company doctors at the Ulm site that cooperate with the center. In addition to regular consultation times, the offering includes mandatory check-ups and medicals, advice on nutrition, ergonomics, and addiction, a range of vaccinations, and a managed process of returning to work after illness or injury that is run in conjunction with the HR department. Safety days are also organized, typically on an annual basis, in order to raise employees' awareness of matters related to health and safety. The coronavirus pandemic meant that it was not possible to hold a safety day in 2021.

Regular training is provided to the key players in occupational health and safety to ensure that their knowledge is up to date and in keeping with the times.

Restrictions to contain the spread of coronavirus Protecting the health of employees took on even greater significance in 2020 in the wake of the outbreak of the coronavirus pandemic. DEUTZ AG set up a coronavirus crisis management team in February 2020 in order to minimize the risk of infection and fulfill its contractual duty of care and protection. The team is led by the Head of HSSE (Health, Safety, Security, and Environment) and has been meeting on a regular 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.

[1] Percentage calculated on the basis of full-time equivalents (FTEs); excluding temporary workers.

Coronavirus-related health and safety measures that have been implemented include, alongside rules on social distancing and wearing face masks, steps to create a safe work environment in terms of infection control, increased cleaning cycles, the provision of hand sanitizer in entrance areas, sanitary facilities, and communal areas, and – for employees in administrative functions – the option of working from home. Furthermore, DEUTZ SICHERHEIT set up coronavirus testing centers at the headquarters in Cologne in January 2021 in which up to 500 employees a day volunteered to be tested and thus proactively helped to break chains of infection. And after vaccine prioritization ended in Germany, inhouse vaccination centers were set up at DEUTZ AG sites, where employees and their family members were able to get a jab to protect themselves against coronavirus.

In order to ensure that staff understand and comply with the new preventive and occupational safety measures, the Company has, since the outbreak of the coronavirus pandemic, been communicating relevant information extensively and in a targeted manner using a variety of different channels. In addition to regular notifications, for example 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.

Frequency of accidents The effectiveness of the aforementioned measures is monitored and measured using various key figures.

The recordable incident rate (RIR) for the DEUTZ Group in 2021 was 9.4, up from 7.4 in the prior year. This increase is due to coronavirus-related factors having a positive impact on the figure in 2020. For example, the number of production runs was significantly reduced as a result of the decrease in the production program. The RIR has improved when compared to the pre-pandemic year of 2019. A contributing factor here was the involvement of the occupational health and safety department early on in the implementation of upgrade measures in production, for example when a new assembly line was brought on stream. In addition, workspaces in production are planned using 3D tools to further optimize ergonomics. Thanks to the introduction of standardized accident analyses, potential dangers can be identified at an early stage and protective measures put in place. Any insights and experiences gained are communicated to all sites. DEUTZ also implemented a variety of measures to optimize the occupational health and safety organization, some of which were a result of the ISO 45001 certification process.

There were no fatalities as a result of work-related injuries in 2021.

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

	2021	2020	2019[2]	2018	2017
RIR	9.4	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 its Sustainability Vision for 2023, DEUTZ set itself the medium-term target of improving the RIR to 7 by the end of 2023.

SUPPLIER MANAGEMENT

DEUTZ maintains business relationships with more than 4,500 suppliers in more than 40 countries. With a purchasing volume of nearly €1.2 billion worldwide, the DEUTZ Group'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, including the approval of production component suppliers, lies predominantly with DEUTZ AG as the executive parent company.[1]

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. In 2021, as a first step, a groupwide organizational structure for purchasing was set up and a global platform was created that is able to provide a transparent overview of the global supplier base. DEUTZ also established a new Purchasing Excellence department that took on global responsibility for the purchasing function's strategy, governance, processes, methods, and tools.

Supplier management had previously focused primarily on the quality of the supplied components, lead times, availability, and commercial conditions. The implementation of the groupwide sustainability strategy, however, now means that the selection of suppliers is increasingly also based on sustainability criteria. The Company has already initiated a whole host of measures in this regard and has also defined a variety of targets under its sustainability strategy that apply not just to DEUTZ AG but to the entire DEUTZ Group.

Supplier management system DEUTZ AG systematically manages its suppliers using a 'supplier cockpit', which it uses to monitor the performance of key suppliers primarily from a purchasing, logistics, and quality perspective. In 2020, in order to be able to query and evaluate various aspects of sustainability, the Company also introduced a web-based assessment platform for global supply chains and a business partner compliance tool. DEUTZ initiated a digitalization process in 2021 with the aim of combining these previously stand-alone assessment platforms into a single supplier cockpit in the medium term. The objective is to ensure that, from the outset, the assessment of suppliers takes particular account of aspects such as respect for human rights, measures to combat corruption and/or bribery, and compliance with certain environmental and social standards. Employees in the purchasing department should, with the help of specialist training, be able to give sufficient consideration to this information when selecting suppliers and to utilize it in their purchasing negotiations.

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

Code of conduct for suppliers | UNGC 2–6, 10 The DEUTZ code of conduct for suppliers (Supplier Code) 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. Among 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 the Company's 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 been an integral part of all new supplier contracts and the general purchasing conditions since January 1, 2020.

In order to ensure and track the effectiveness of the Supplier Code to the greatest possible extent, the Company conducts site 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.

In 2019, under its Sustainability Vision for 2023, DEUTZ set itself the target of conducting site audits at 30 existing suppliers a year between 2020 and the end of 2023 regarding their compliance with the Supplier Code and of auditing 90 percent of all new suppliers over the same period. The outbreak of the coronavirus pandemic meant that the 30 site audits of existing suppliers that had originally been planned for each year did not take place in either 2020 or 2021. This prompted DEUTZ to adjust its target so that it now intends to locally audit a total of 55 existing suppliers by 2023.

In 2021, site audits were conducted at a total of 16 existing suppliers. The proportion of new suppliers that were audited was 83 percent.

DEUTZ Group: Number of suppliers[1] audited regarding their compliance with the Supplier Code

	2021	2020
Number of suppliers audited	16	4

[1] Existing suppliers as at the end of 2019.

DEUTZ Group: Proportion of new suppliers audited regarding their compliance with the Supplier Code

%

	2021	2020
Proportion of new suppliers audited	83	0

Suspected violations of the Supplier Code can be reported at any time via a publicly accessible whistleblowing system. See also 'Corporate governance and compliance', p. 98 onward.

As part of its implementation of the German Supply Chain Due Diligence Act, DEUTZ plans to comprehensively revise its current Supplier Code in 2022 and to roll it out in further language versions.

Monitoring and assessing the sustainability performance of suppliers | UNGC 2–7, 10 DEUTZ has created a tool that draws on publicly accessible information to ensure that potential sustainability risks in its supply chain are monitored on an ongoing basis. By filtering predefined data sources, such as those provided by the World Health Organization, the tool identifies reports that pertain to relevant risks, for example in connection with humans rights issues or labor practices, and automatically forwards them to the appropriate employees in the purchasing department. These reports are also incorporated into the system-based assessment of the general risk of working with that supplier.

At the end of 2020, DEUTZ also began using EcoVadis, a web-based assessment platform for global supply chains, in order to gain a rounded picture of the sustainability performance of its biggest suppliers by revenue. The assessment criteria cover environmental and ethical topics, labor rights, human rights, and sustainable sourcing.

DEUTZ has set itself the target, for the end of 2023, of auditing 50 percent of its top 150 suppliers as measured by its purchasing volume in the prior year. The proportion of suppliers audited in this way in 2021 was 55 percent.

DEUTZ Group: Proportion of suppliers[1] assessed against sustainability criteria

%

	2021	2020
Proportion of suppliers assessed	55	31

[1] Top 150 suppliers as measured by DEUTZ's purchasing volume in the prior year.

In the next step, DEUTZ plans to develop a process that will make it possible to systematically detect and document weaknesses identified as part of the assessment of sustainability performance. This documentation will then be used as a starting point for the definition of improvement measures in collaboration with the suppliers.

Business partner compliance | UNGC 1–6, 10 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 using EcoVadis. DEUTZ introduced a business partner compliance tool for this purpose at the end of 2020. See also 'Corporate governance and compliance', p. 98 onward.

The target for 2023 is to use the newly established tool to conduct compliance risk assessments for 90 percent of all existing suppliers with which DEUTZ's purchasing volume for the prior year exceeded €0.5 million. In 2021, the proportion of existing suppliers to have undergone business partner compliance checks came to 11 percent.

DEUTZ AG: Suppliers[1] that have undergone business partner compliance checks

%

	2021	2020
Proportion of suppliers audited	11	0

[1] Existing suppliers with which DEUTZ's purchasing volume for the prior year exceeded €0.5 million.

Materials compliance | UNGC 7–8 DEUTZ purchases components and raw materials for use in engine production that contain an extensive range of pure substances and minerals. As a result, the Company is subject to international regulations including 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**.

The Materials Compliance function, which is part of the Purchasing Excellence department, is tasked with ensuring compliance with the aforementioned regulations. Its main responsibilities include continually assessing developments at regulatory and policy level, such as the EU chemicals strategy, and determining whether the engines that are produced fulfill the criteria of all the many environmental laws and regulations. The function is also responsible for optimizing processes with regard to the materials and substances that are used. This includes introducing conformity checks in the product development process and in the purchased parts approval process. To achieve these aims, it works closely with Component Purchasing for Series Production and the Supplier Quality department and stipulates the criteria for the selection of production component suppliers with regard to materials compliance. An online database for materials declarations has been 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 launched to implement a materials compliance software solution was completed in 2021. This will help to further process information on materials over the course of the product lifecycle.

As it does not purchase any minerals directly, DEUTZ 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. This policy reflects sources such as the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and will form part of new supplier contracts from 2022 onward. DEUTZ carries out surveys on the use of conflict minerals at regular intervals to ensure compliance with this guidance and its recommendations 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.

Implementation of the Supply Chain Due Diligence Act The Supply Chain Due Diligence Act will enter into force in Germany on January 1, 2023. It is intended to prevent, minimize, or eliminate risks relating to human rights and the environment. In the second half of 2021, DEUTZ, under the direction of the purchasing department, established a cross-departmental task force that is working on implementing the resulting requirements. As well as appointing a human rights officer, these requirements include putting in place a risk management system, conducting regular risk analyses, and developing and implementing preventive and remedial measures. From the beginning of 2023, DEUTZ will report annually on the aforementioned issues and any related developments in its non-financial report. And by the end of 2022, the Company will adopt a groupwide declaration of principles with regard to its human rights strategy and make this publicly accessible on its website.

SOCIAL RESPONSIBILITY

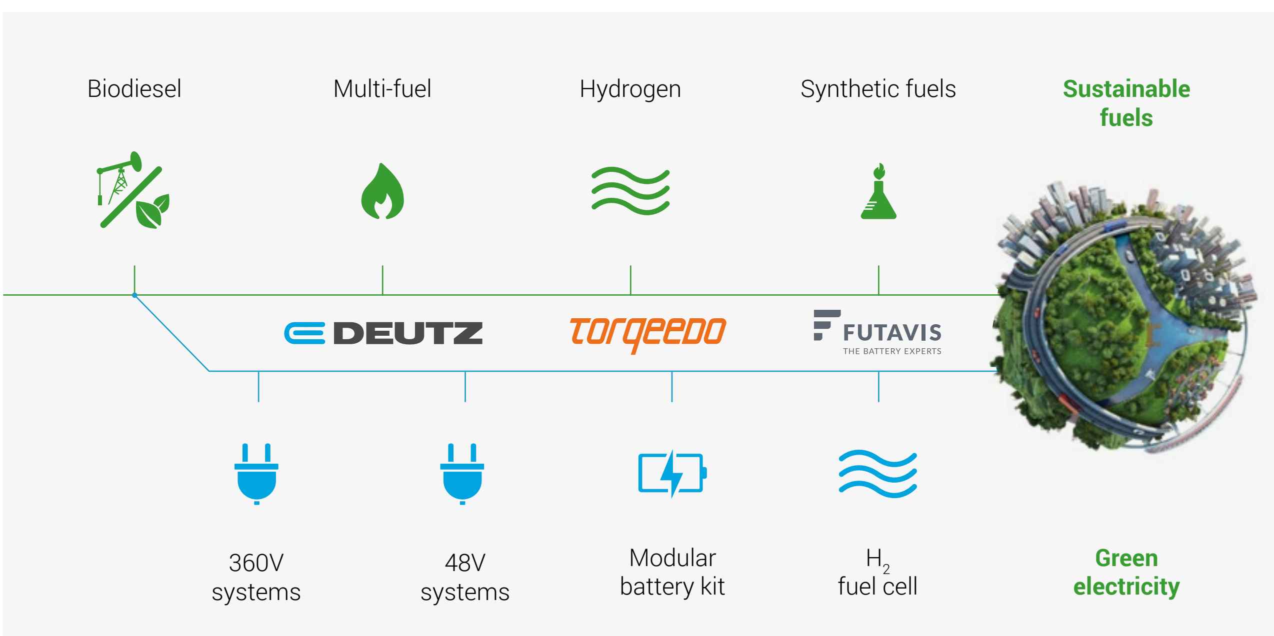
PRODUCT STEWARDSHIP

An ever-growing global population, finite natural resources, and the steady march of climate change as a result of global warming present fundamental challenges for the future of mobility, and not just in the on-road sector. The Paris Agreement from 2017 aims to limit global warming to 1.5 degrees by 2030. The off-highway sector also needs to play its part in the achievement of this target by reducing, as far as possible, the amount of harmful CO_2 emissions that it produces. As a leading manufacturer of engines for off-highway applications, DEUTZ believes it has a responsibility to society to make products that move us toward a future of carbon-neutral off-highway vehicles and marine vessels, thereby contributing to the achievement of the Paris climate goals.

The ongoing development of our drive portfolio is, of course, also influenced by legislation aimed at reducing emissions and limiting noise pollution. To establish whether an engine meets the legal requirements, it has to undergo mandatory certification processes. These 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.

Different applications with varying power requirements call for a range of drive solutions. Construction equipment and agricultural machinery, for example, need a great deal more power than forklift trucks or lifting platforms. In view of this fact, DEUTZ adopts a technology-neutral approach to the development of its engine portfolio. Its products therefore range from diesel technology to solutions that use alternative fuels and include gas, hybrid, electric, petrol, and hydrogen drives.

Technology-neutral approach to development of the drive portfolio



E-DEUTZ | UNGC 7–9 The E-DEUTZ strategy, initiated back in 2017, plays an instrumental role in the development of green off-highway drive solutions. It aims to create a scalable product portfolio of electric drives and hybrid variants for specific customer requirements in off-highway and marine applications. Electric drive systems are carbon-neutral, whereas hybrid systems reduce total carbon emissions during operation by **downsizing** engine capacity while maintaining overall system performance.

In the coming years, the E-DEUTZ development team working from multiple sites will focus on commercializing four basic drive systems for customer applications in the low and medium power output range, for example ground support equipment, construction equipment, and agricultural machinery. In 2021, in step one of this process, DEUTZ developed an electric 360-volt drive system to the preproduction stage. The focus in 2022 is on launching the finished product on to the market. The plan for the second step is to develop a 48-volt base drive system and a 360-volt split system by the end of 2023.

In 2020, DEUTZ employees had sketched out the idea of a mobile E-DEUTZ charging station, the Powertree, for electric-powered construction vehicles. Electric drive systems are restricted in their autonomy and take longer to 'refuel' (recharge) than conventional internal combustion engines. This is where the DEUTZ Powertree comes in. The Powertree's integrated battery means that machines can be charged on site even when there is no access to mains powers. Downtime is reduced to a minimum thanks to the rapid-charge function that is capable of delivering up to 150 KW. DEUTZ supplied the first prototypes to a customer in 2021.

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.

In 2021, the share of consolidated revenue attributable to E-DEUTZ products amounted to 3.3 percent.

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

%

	2021	2020	2019[2]
E-DEUTZ share	3.3	3.2	1.7

[1] Revenue with electric motors, E-DEUTZ components and services as well as batteries from DEUTZ subsidiary Futavis.
[2] Because Futavis was acquired in October 2019, only its revenue for the fourth quarter of 2019 is included.

New segment: Green With effect from January 1, 2022, DEUTZ is putting in place a new reporting structure and introducing the Green segment. The Company's aim is to provide a more transparent picture of its work on off-highway technology for a carbon-neutral future. All activities connected with the development and production of non-diesel drives will be assigned to the Green segment. This includes E-DEUTZ drive systems, the subsidiary Torqeedo, the battery management service provider Futavis, hydrogen-powered engines, and developments related to fuel cells, as well as the assimilation of new technologies through strategic investments and acquisitions. The introduction of the new segment reporting structure means that the previous E-DEUTZ target has been superseded. The target is now to raise the proportion of consolidated revenue generated by the Green segment to between 5 and 10 percent by 2023/2024. See also the management report – 'Strategy and objectives', p. 22 onward.

Innovative internal combustion engines | UNGC 7–9 In the years ahead, internal combustion engines will continue to predominate for mobile machinery. For this reason, the DEUTZ Group's development activities will focus 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. Hydrogen is one of these sustainable energy sources 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.

DEUTZ commenced development work on its first production hydrogen engine in the third quarter of 2021. The TCG 7.8 H2 complies with the CO_2 threshold set by the EU for zero emissions. Agreement has been reached with a regional utility company that it will be piloted in stationary equipment for power generation. The hydrogen engine in this instance produces electricity in combination with a generator. Although this pilot project is relatively small in scale, it should deliver insights into the decentralized, sustainable, and greenhouse-gas-free supply of energy in urban centers. The plan is for the TCG 7.8 H2 to go into full production at the end of 2024. DEUTZ had already signed a cooperation agreement with the German Aerospace Center (DLR) regarding a joint project focused on making construction sites more environmentally friendly. The aim of the project is to develop solutions for running construction-site vehicles and agricultural machinery on hydrogen.

Commercial vehicles, tractors, and construction equipment are used for heavy-duty applications and for long hours, so they need a fuel with a high energy density and short refueling times. E-fuels may be the answer. They are synthetic fuels such as paraffinic diesel fuels that are made on a renewable basis using electricity, water, and carbon dioxide (CO_2). The combustion of e-fuels produces the same level of emissions as conventional fuels. However, if the electricity used to make them is produced entirely from renewable sources and the necessary CO_2 is taken from the atmosphere or from biomass, then internal combustion engines can run on a carbon-neutral basis. In August 2021, DEUTZ approved all its model series that meet the EU V emissions standard for use with paraffinic diesel fuels. At the same time, the Company approved the majority of its latest-generation engines for biodiesel blends (biodiesel mixed with petroleum diesel). The use of these alternative fuels significantly reduces the carbon footprint of DEUTZ's engines and raises the prospect of it making its engines carbon-neutral in the future by running them on 100 percent biodiesel.

DEUTZ joined the eFuel Alliance in the third quarter of 2021. The organization represents the interests of companies involved in producing synthetic fuels from renewable energies on an industrial scale. Its mission is to drive forward the production of e-fuels as an alternative to conventional fuels, help them to become broadly accepted, and in doing so contribute to the protection of the climate.

The TCD 5.2 is another example of how environmental compatibility and a long service life are priorities in the development of DEUTZ's drive portfolio. This diesel engine has four cylinders and a displacement of 5.2 liters and, looking ahead, is intended to replace larger six-cylinder engines. It does not use **exhaust gas recirculation** and is instead equipped with an efficient nitrogen oxide (**NOx**) aftertreatment system and a catalytic soot filter for reducing particulate emissions. The elimination of exhaust gas recirculation means the engine can be made more powerful, which allows its capacity and thus also fuel consumption to be reduced. Combustion efficiency is improved as well, reducing fuel consumption even further. The TCD 5.2 can be run on alternative fuels such as biodiesel and is also primed for hybrid operation thanks to the integrated 48V electric motor option. DEUTZ supplied the first prototypes for a range of customer applications in 2021. The plan is to go into production in 2022.

As part of an event held across several days in November 2021, under the banner 'Moving the world sustainably', DEUTZ unveiled prototypes of a wide range of new developments to the capital markets, the press, and its customers and used live demonstrations of specific applications to show them how it is paving the way for green off-highway drive solutions. In addition to mobile electric charging stations, the Company presented all-electric excavators with various power profiles, a small, all-electric construction-site crane truck, and an electric-powered aircraft tug. Zero-emission operation and minimal noise emissions are the standout features of these applications. On the agricultural machinery side, the Company showcased a downsizing solution for a tractor.

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 specification. The system enables the Company to offer bespoke solutions that can reduce carbon emissions, fuel consumption, and overall costs while allowing it to still respond quickly and flexibly to technological advances and changing market requirements.

Environmentally-friendly and resource-efficient services | UNGC 7–9 DEUTZ play its part in mitigating climate change by continually reducing the fuel consumption and emissions of its engines and developing carbon-neutral drive solutions. 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. 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 harmful 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.

Digital technologies are also a priority for DEUTZ in the expansion of its service portfolio, as they can present an eco-friendly alternative to previously analog-only formats. In 2021, DEUTZ introduced S-DEUTZ Telematics, which now makes it possible to plan service events with greater efficiency thanks to digital engine condition checks with integrated diagnostics and fault interpretation. The technician at the service outlet is able to use the digital diagnostics and fault interpretation to plan ahead and make sure that the parts and tools needed to fix a fault are available at the right time. In addition, the digital engine condition checks allow for planned maintenance and unplanned repairs to be combined. This reduces the number of trips that need to be made to the service outlet, which has a positive impact on the carbon footprint.

Innovation platform | UNGC 7–9 To complement its ideas management system See also 'HR management', p. 101 onward DEUTZ AG established an additional format in 2021 called the innovation platform, which allows employees to work together on a range of ideas for enhancing the drive and service portfolio. The theme of the current campaign is 'green construction sites', focusing on the three aspects of energy logistics, energy storage, and energy management. It is accompanied by a series of webinars designed to give employees a deeper understanding of the questions that are currently being asked and the challenges that they pose. For energy logistics, for example, the question is: How does the energy get to the construction site? For the accompanying webinars: What are the parameters for working with urban and non-urban construction sites? What can construction site operators expect from this infrastructure? How can we as a Company customize our offerings to cater to these requirements? In a spirit of openness to new technologies, the innovation campaigns are essentially aimed at pursuing approaches based on all kinds of different drive systems. The new platform not only fosters a culture of innovation at the Company but also allows for the exploration of new ideas for green drive systems that are tailored to the requirements of customers in the off-highway sector.

CORPORATE CITIZENSHIP

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. A groupwide donation and sponsorship strategy and an accompanying organizational policy provide a mandatory framework for its activities in these areas. As well as defining responsibilities and decision-making processes, they set out the principles for corporate citizenship activities and aim to ensure their effectiveness and legal integrity – particularly with regard to potential conflicts of interest and measures to combat corruption and bribery – by laying down binding rules.

Nicolaus August Otto Award | UNGC 7–9 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. It also aims to support advances in wider society. In order to pave the way for green off-highway drive solutions, for example, DEUTZ is championing innovative ideas, technologies and future-focused research in the fields of alternative drives, transportation, and energy efficiency. That is why, in 2019, it established the Nicolaus August Otto Award, named for the founder of DEUTZ AG and co-inventor of the four-stroke engine. The award is presented annually and endowed with prize money of €30,000.

In 2021, DEUTZ presented the Nicolaus August Otto Award to Professor Anke Kaysser-Pyzalla. The Chair of the Executive Board of the German Aerospace Center (DLR) received the innovation prize in recognition of her achievements in research and management in the fields of space exploration, aeronautics, energy, transportation, security, and digitalization.

Nurturing young people DEUTZ regards education as the foundation of a sustainable society. This is why DEUTZ Spain started work on the DEUTZ Business School (DBS) at its site in Zafra in 2017. The objective was, and still is, to support economic development in a region where educational institutions such as the business school are rare. The DBS aims to equip young people with the knowledge and skills they need to meet current and future requirements of business and of the labor market. In addition to university lecturers, the teaching is also provided by managers from DEUTZ Spain who are certified lecturers. The programs on offer are geared toward the needs of companies in all sectors. They focus on dual vocational training, university courses in **lean management**, and language courses with official certification. Around 1,200 students were enrolled on DBS courses in 2021.

Social causes are also a focus of the training center at the headquarters in Cologne. See also 'HR management', p. 101 onward. For more than 20 years, DEUTZ has worked with the charity IN VIA to provide training and labor market integration support at the center. The participants are young women and men who have difficulties finding a job after leaving school. Over a period of ten months, they are prepared for working life and receive basic training in metalwork and warehouse logistics. In 2021, DEUTZ built a bridge to the world of work for a total of 18 young people through this initiative.

DEUTZ gensets for a good cause In 2021, DEUTZ arranged for material support to be provided to the Burkina Faso Institute of Technology (BIT), a private university that was founded four years ago. In addition to the main university building, its grounds feature a high school, a range of sports facilities and, as the most recent addition, student accommodation. Power has so far been provided by a solar plant that is now reaching the extent of its capacity because of the rising number of facilities. Until a new solar plant can be installed, a DEUTZ genset is ensuring that local power supply is maintained. This summer, DEUTZ gensets were also deployed in Germany as a means of ensuring a basic supply of electricity after some regions were hit by severe weather in July 2021. Torrential rain led to flash floods and massive flooding in the affected regions that destroyed a large part of the infrastructure, including that used to supply gas, electricity, and water. Together with the dealer DEMTECH and the customer VISA, DEUTZ swiftly arranged for gensets, pumps, and other equipment – including immersion pumps and devices to suck out or move water – to be provided to the disaster zones. In addition, DEUTZ's safety management unit coordinated the distribution of equipment offered privately by DEUTZ staff. The Company also exempted any employees affected by the floods from having to work and continued to pay their wages.

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.

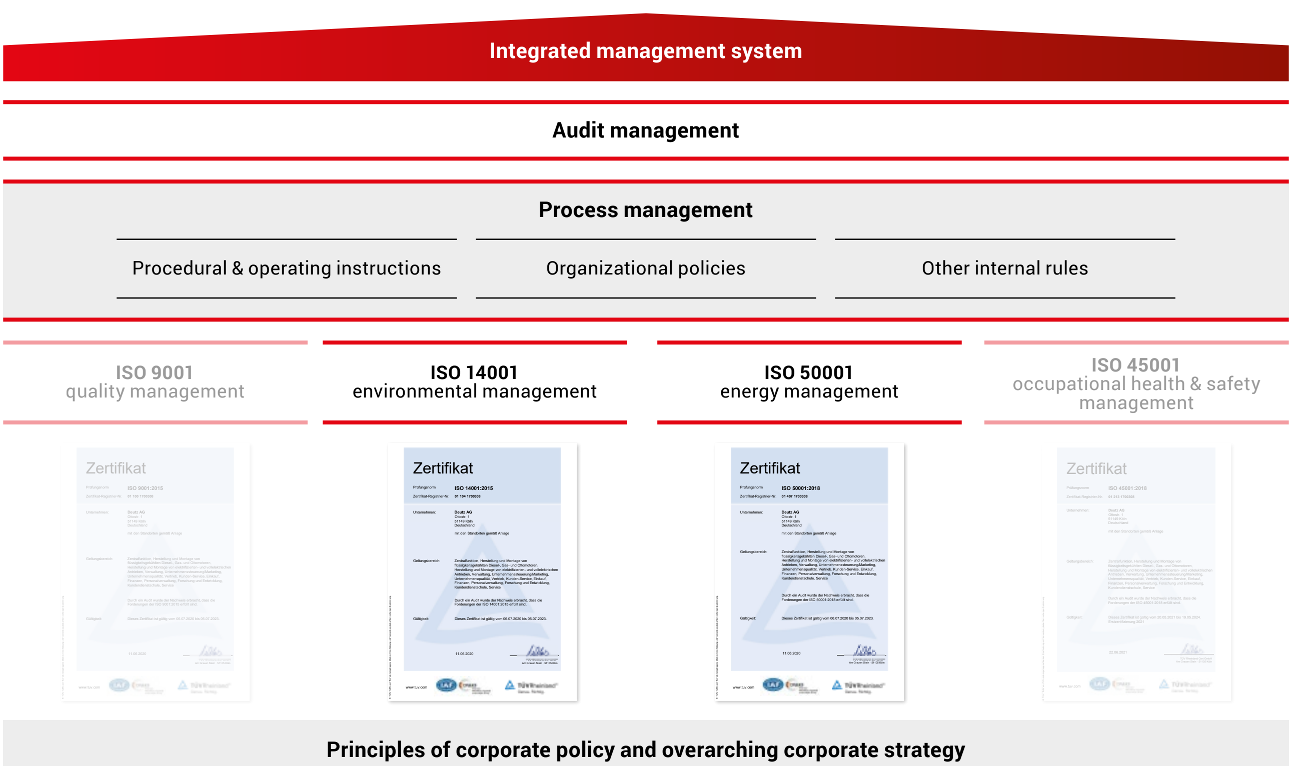
Despite its decentralized organizational structure, DEUTZ has set a number of targets as part of its sustainability strategy that – unless otherwise specified – relate to the production sites[1] of the Group as a whole.

Internal inspections and legal conformity | UNGC 7 The activities of certain areas of the business, such as the assembly line or paintshop, carry a risk of having harmful effects on the environment. An internal team of auditors and experts inspect these areas at least once a year to enable possible hazards and potential for improvement to be identified at an early stage. The inspections focus on verifying compliance with the Company's own objectives and specifications and with statutory requirements. In Germany, these statutory requirements 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).

An approval procedure ensures that the use of hazardous substances in production that could be detrimental to the safety of our staff, or harmful to the environment if they are improperly handled, is minimized wherever possible. Responsibility for this lies with the Materials Compliance function, which forms part of the new Purchasing Excellence department (Non-Production Purchasing, Sustainability, and Compliance in Purchasing). 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. 107 onward.

[1] Excluding joint ventures.



Integrated management system and certifications The integrated management system (IMS) used by DEUTZ AG and its Spanish subsidiary DEUTZ Spain covers areas such as occupational health and safety, environmental protection, and energy. The environmental management system, which is intended to help continually improve the Company's overall environmental performance, meets the criteria of the international standard DIN EN ISO 14001:2015. DEUTZ AG's energy management system, and from 2021 also that of DEUTZ Spain, meets the requirements of the energy management standard DIN EN ISO 50001:2018. It enables the continuous monitoring of consumption and energy flows, which in turn facilitates the effective planning and implementation of optimization measures. The ISO-14001:2015 and ISO-50001 certifications cover around 81 percent of the DEUTZ Group's 2021 sales volume.

The conformity of the IMS 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 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.

Measures to reduce energy consumption | UNGC 7–9 In 2021, 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 optimizing the ability of a compressed air supply station to recover heat, which the aim of reducing primary energy requirements. The system is expected to be signed off at the beginning of 2022. In addition, DEUTZ expanded the use of the cold tests that had been introduced in 2020 for testing certain diesel engines. Unlike in conventional hot testing, cold testing involves running diagnostic programs with hardly any fuel being used. Both hot and cold tests replicate the real-life operation of an engine to check whether it is functioning properly. Furthermore, the phased replacement of conventional lighting with LED lighting was continued in 2021 and is scheduled to be completed in 2022.

A progressive reduction of electricity consumption is not all that DEUTZ is striving to achieve, however. It also intends to promote 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. At the Spanish site in Zafra, DEUTZ Spain made preparations for installing solar cells on car park roofs and production halls in 2022. The aim is to prevent around 255 tonnes of CO_2 a year from being emitted. Plans for similar projects in Cologne were finalized in 2021, with the first photovoltaic system also set to be brought on stream there in 2022.

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

MWh	2021	2020	2019	2018	2017[2]
Electricity	85,629	72,678	87,334	94,999	84,605
Natural gas	33,558	29,158	35,989	38,271	35,277
District heating	13,984	11,262	10,969	12,349	12,223
Heating oil[3]	2,954	2,317	2,685	3,359	3,653
Diesel fuel[4]	22,590	18,951	20,764	18,165	19,218
CNG[5]	0	108	72	0	0
LPG[6]	160	245	390	633	421
Gasoline[7]	50	0	0	0	0
Hydrogen[8]	41	0	0	0	0
Total	**158,965[9]**	**134,720[10]**	**158,205**	**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] At 8.55 kWh/liter (average).
[8] At 33.3 kWh/kg and 3 kWh/Nm³.
[9] As a result of differing accounting periods, the total for 2021 includes an extrapolated figure for the Atlanta production for December 2021.
[10] Due to differing accounting periods, the total published in the 2020 non-financial report included an extrapolated figure for the Atlanta production site for December 2020. The total figure for 2020 was retrospectively adjusted in line with the actual consumption.

In 2021, overall energy consumption at DEUTZ Group production sites increased by 18.0 percent year on year to 158,965 megawatt hours. This trend was mainly driven by a significant increase in production capacity utilization of around 43 percent compared to 2020. Furthermore, since 2021 the energy balance includes hydrogen and gasoline used as fuels in the course of research and development for new drive systems, such as the new hydrogen engine. See also 'Product stewardship', p. 110 onward.

CO_2 emissions | UNGC 7–9 The majority of the scope 1 emissions[1] from the DEUTZ Group's production sites 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.

The DEUTZ Group's primary objective is to push ahead with the use of alternative, carbon-neutral drive systems in the off-highway sector. This raises the prospect of significantly reducing the carbon footprint of the applications in which they are deployed. See also 'Product stewardship', p. 110 onward. DEUTZ also plays its part in lowering emissions and achieving the Paris climate goals by endeavoring to continually optimize the processes associated with its engine production. In this context, existing equipment is being progressively optimized and processes are being trialed and introduced that could allow DEUTZ to dispense with some of the tests currently run for quality control. This includes the aforementioned cold test.

DEUTZ Group: CO_2 emissions from production sites per manufactured engine[1]

Tonnes CO_2e[2]	2021	2020	2019	2018	2017[3]
CO_2-emissions (scope 1)[4]	13,590	11,565	13,590	13,530	13,239
CO_2-emissions (scope 2)[5]	6,467	33,159	38,828	42,240	38,012
Total CO_2 emissions	**20,057[6]**	**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.
[6] The guarantees of origin for electricity from renewable sources are cancelled in the German register of guarantees of origins (HKNR). The guarantees for electricity used in 2021 will be cancelled in the first half of 2022.

DEUTZ Group: CO_2 emissions from production sites per manufactured engine[1]

CO_2e (kg)[2]	2021	2020	2019	2018	2017[3]
Emissions per engine	104[4]	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.
[4] The guarantees of origin for electricity from renewable sources are cancelled in the German register of guarantees of origins (HKNR). The guarantees for electricity used in 2021 will be cancelled in the first half of 2022.

CO_2 emissions from production sites fell by around 55 percent in 2021 compared to 2020 despite a significant increase in production volume and persistently high research activity at the Cologne-Porz site. Over the same period, CO_2 emissions per manufactured engine saw an even greater drop of around 69 percent. This is mainly due to the fact that this KPI is by definition dependent on the production volume of the respective year, which increased by around 43 percent in 2021. At the same time, the switch to green electricity also made a substantial contribution to reducing CO_2 emissions.

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[3] as a whole and per manufactured engine. Based on the figures for 2021, the reduction compared to 2017 amounted to 61 percent and 65 percent respectively. As a result, DEUTZ has already exceeded its target by a large margin in 2021.

Nitrogen oxide and particulate emissions | UNGC 7–9 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. The majority of these emissions are produced by the running of combustion processes in the development plant's test rigs and in the test bays. These replicate the real-life operation of engines and thus burn diesel and LPG.

[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; scope 1: CO_2 emissions from diesel, natural gas, liquefied petroleum gas (LPG), heating oil, and CNG caused by burning these fuels in our own facilities.
[2] 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.
[3] Excluding joint ventures.

The ongoing development of the Company's engines is heavily influenced by laws and legislation, for example in the form of ever stricter emissions restrictions. Because of this, the DEUTZ Group's development activities are aimed at continually optimizing the performance of the exhaust aftertreatment systems and the technical configuration of its drive systems 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 even 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.

DEUTZ Group: Nitrogen oxide and particulate emissions from the production sites per manufactured engine[1,2]

	2021	2020	2019	2018	2017
Nitrogen oxide[3] (kg)	0.67	0.83	0.33	0.19	0.25
Particulate (g)	3.27	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 for 2021 and 2020 is based on a measurement from 2019; for 2017 to 2019 it is based on a measurement from 2016. The figures for 2020 were recalculated in 2021.

Despite an increase in engine testing in its test bays, the nitrogen oxide and particulate emissions from its production sites per engine manufactured fell by around 19 percent and 12 percent respectively year on year. The reason for this lies in the KPI definition and therefore in the large increase in production.

Under its sustainability strategy, DEUTZ has set itself the target for 2023 of reducing both nitrogen oxide and particulate emissions from its production sites[1] per engine manufactured by 3 percent compared to the base year 2019. However, 2021 saw an increase of 103 percent and 21 percent respectively compared to 2019. This is because the conditions under which the measurements were taken at the site in Ulm in 2016 and 2019 were not comparable.

[1] Excluding joint ventures.

Waste | **UNGC 7–9** 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 engine components also make up a not insignificant proportion of the waste produced. Because these liquids contain oil they mainly constitute waste for disposal.

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

Tonnes	**2021**	2020	2019
Waste for disposal	5,061	4,312	6,337
Waste for recycling	17,366	11,892	14,160
Total waste	**22,427**	**16,204**	**20,498**

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

Due to the large increase in production volume, the amount of waste generated at the production sites in 2021 rose by around 38 percent in total compared to 2020; the volume of waste sent for disposal increased by around 17 percent.

By 2023, DEUTZ intends to have reduced waste for disposal from its production sites[1] by a total of 10 percent compared with 2019. In 2021, as part of its efforts to achieve this target, the Company introduced a process to reduce its use of aqueous cleaners and began work on reducing paint waste by optimizing wastewater treatment. The plan for 2022 is also to review whether it would be viable to introduce pallet pooling and reusable packaging.

The volume of waste for disposal generated in 2021 fell by 20 percent compared to 2019 despite a comparable production program. This means that DEUTZ has already exceeded its target in 2021. The packaging types and bundle sizes used in spare parts logistics are continuously being optimized, so further reductions in the volume of waste for recovery can be expected along the supply chain in the years ahead.

INFORMATION ON REGULATION (EU) 2020/852 – TAXONOMY REGULATION

The growing importance of sustainability can now increasingly be seen in the financial sector too, not least since the European Commission introduced its **Sustainable Finance Action Plan**. The Action Plan is aimed at improving the flow of money into sustainable economic activities throughout the European Union, thereby contributing to the European Green Deal. One of a number of packages of measures in this area, Regulation (EU) 2020/852 (EU Taxonomy Regulation) came into force in July 2020 and was required to be applied for the first time in 2021. It provides a classification system that is used to define companies' environmentally sustainable economic activities.

KEY PERFORMANCE INDICATORS AND CALCULATION RULES

Pursuant to Article 8 of the EU Taxonomy Regulation and Article 10 (2) of the Article 8 Delegated Act (Commission Delegated Regulation (EU) 2021/2178), the key performance indicators to be disclosed for 2021 are the proportions of consolidated revenue, capital expenditure (CapEx), and operating expenses (OpEx) associated with taxonomy-eligible and taxonomy-non-eligible economic activities that DEUTZ generates from taxonomy-eligible economic activities in connection with the currently applicable environmental objectives of (1) climate change mitigation and (2) climate change adaptation.

A taxonomy-aligned economic activity is an economic activity that is described in the delegated acts supplementing the EU Taxonomy Regulation and the current Climate Delegated Act. The economic activity must also satisfy the following criteria:

- it contributes substantially to one or both of the currently applicable environmental objectives,
- it complies with the technical screening criteria described in the Delegated Acts supplementing the EU Taxonomy Regulation and the Climate Delegated Act,
- it does not significantly harm any of the other environmental objectives, and
- it is carried out in compliance with the minimum safeguards.

Taxonomy-eligible revenue The proportion of our total revenue generated from taxonomy-eligible economic activities is the amount of consolidated revenue for 2021 – pursuant to point 1.1.1 of Annex I of the Article 8 Delegated Act – that is derived from products and services associated with taxonomy-eligible economic activities, divided by consolidated revenue for 2021 pursuant to IAS 1.82(a). See also the consolidated financial statements, p. 130.

Taxonomy-eligible CapEx Taxonomy-eligible CapEx is calculated by dividing our taxonomy-eligible capital expenditure by our total CapEx. This encompasses additions to property, plant and equipment and intangible assets during the reporting period before depreciation, amortization, and any remeasurements, including those resulting from remeasurements and impairment for the year concerned and excluding fair value changes. This also encompasses the acquisition of property, plant and equipment pursuant to IAS 16, including right-of-use assets in accordance with IFRS 16, and additions to intangible assets in accordance with IAS 38.[1] Goodwill is not included in CapEx because it is not defined as an intangible asset pursuant to IAS 38.

Capital expenditure is taxonomy-eligible if it can be assigned to the following three categories a), b), or c).

a) capital expenditure related to assets or processes that are associated with taxonomy-eligible economic activities,

b) capital expenditure that is part of a capital expenditure plan to align taxonomy-eligible economic activities with the EU Taxonomy Regulation or to expand taxonomy-eligible economic activities, or

c) capital expenditure that is related to the purchase of output from taxonomy-eligible economic activities and individual measures pursuant to the EU Taxonomy Regulation that enable certain target activities (generally our taxonomy-non-eligible activities) to become low-carbon or to lead to greenhouse gas reductions. Capital expenditure is also deemed taxonomy-eligible if the products or individual measures purchased correspond to the description of the particular economic activity.

The DEUTZ Group's economic activities can be assigned to categories a), b), and c). See also the table 'Overview and assignment of taxonomy-eligible economic activities', p. 121.

[1] See also 'Statement of changes in non-current assets' in the notes to the consolidated financial statements, p. 141 onward.

Taxonomy-eligible OpEx Taxonomy-eligible OpEx is defined as our OpEx associated with taxonomy-eligible economic activities divided by our total OpEx. This covers direct, non-capitalized costs that relate to research and development, building renovation measures, short-term leases, maintenance and repair, and any other direct expenditure relating to the day-to-day maintenance and repair of property, plant and equipment. Expenditure related to day-to-day operations is not included.

OpEx consists of the following items:

- Research and development expenditure that is expensed in the income statement during the reporting period. In accordance with IAS 38.126, all non-capitalized expenses and amortization and impairment on development expenditure already capitalized that can be directly assigned to the research and development activities.
- The volume of non-capitalized leases was determined in accordance with IFRS 16 and includes expenses for short-term leases.[1]
- Maintenance and repair costs and other direct expenditure relating to ongoing maintenance of property, plant and equipment were determined on the basis of the maintenance and repair costs allocated to the internal cost centers. The relevant cost items are included in various line items in our income statement. This also applies to building renovation measures. As a rule, the line items are staff costs, costs for services, and the cost of materials for maintenance and for regular and unscheduled maintenance and repair work.

OpEx is taxonomy-eligible if it can be assigned to the three categories a), b), or c) as described above under 'Taxonomy-eligible CapEx'. See also the table 'Overview and assignment of taxonomy-eligible economic activities', p. 121.

IDENTIFICATION OF TAXONOMY-ELIGIBLE ECONOMIC ACTIVITIES IN THE DEUTZ GROUP

The first step in identifying the taxonomy-eligible economic activities was to assess which of our business activities might potentially be relevant. We did this by referring to Annexes 1 and 2 of the Delegated Act supplementing the EU Taxonomy Regulation. In cooperation with the relevant contact persons for each of the different areas, we then conducted a detailed analysis of these potentially taxonomy-eligible economic activities. To ensure that nothing was counted more than once, we first determined all capital expenditure and operating expenses in category c) and then assigned the remaining capital expenditure and operating expenses to category a) or category b), or defined them as taxonomy-non-eligible economic activities. See also the table 'Overview and assignment of taxonomy-eligible economic activities', p. 121.

TAXONOMY-ELIGIBLE ECONOMIC ACTIVITIES IN THE DEUTZ GROUP

The DEUTZ Group's core competencies are primarily the development and production of drive systems for off-highway applications. These drives are used in a wide range of 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. See also 'Business model', p. 93.

In view of our business model, our economic activities that are taxonomy-eligible are essentially those relating to alternative drive solutions. These include our hydrogen engine, which is being used in stationary equipment for the generation of electricity, and the activities relating to the electrification of our engine portfolio under the E-DEUTZ name. The latter include the manufacture of electric drive systems (e.g. for use in construction-site vehicles and ground support equipment), the mobile charging station for electric-powered construction-site vehicles (DEUTZ Powertree), the manufacture of battery management systems and components by our subsidiary Futavis, and the manufacture of batteries and electric boat drives by our subsidiary Torqeedo. In addition to these activities from which we generate external revenue, we also identified investing activities that exclusively result in taxonomy-eligible CapEx. These activities relate to the optimization of energy efficiency within our operations.

[1] See also p. 176 onward.

The following table shows the taxonomy-eligible economic activities – pursuant to Annexes 1 and 2 of the Delegated Act – in the DEUTZ Group in connection with the environmental objectives of (1) climate change mitigation and (2) climate change adaptation. DEUTZ has decided to assign the taxonomy-eligible economic activities to the first environmental objective (climate change mitigation) because this is considered more suitable with regard to the activities listed and the EU Taxonomy Regulation does not permit activities to be counted more than once.

Overview and assignment of taxonomy-eligible economic activities

Section in Annex 1	Economic activity at DEUTZ	Revenue	CapEx (a, b, c)	OpEx
3.2. Manufacture of equipment for the production and use of hydrogen	Manufacture of hydrogen engines that produce electricity in combination with a generator in stationary equipment		b)	X
3.4 Manufacture of batteries	Futavis subsidiary: manufacture of battery management systems and components	X	a)	X
	Torqeedo subsidiary: manufacture of battery modules, battery management systems, and battery casings in collaboration with suppliers	X	a)	X
3.6. Manufacture of other low carbon technologies	Manufacture of electric drive systems, e.g. for use in construction-site vehicles and ground support equipment		b)	X
	Manufacture of electric boat drives at our subsidiary Torqeedo	X	a)	X
6.15 Infrastructure enabling low-carbon road transport and public transport	Manufacture of mobile rapid-charging stations (DEUTZ Powertree) for battery-powered electric (i.e. zero-emission) applications	X	a)	X
7.3 Installation, maintenance and repair of energy efficiency equipment	Replacement of conventional lighting with LED lighting		c)	
	Use of solar shading to optimize the thermal performance of the glazing in the assembly hall in Cologne-Porz		c)	
7.4 Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	Installation of electric charging stations at the headquarters in Cologne		c)	
7.5 Installation, maintenance and repair of instruments and devices for measuring, regulating and controlling energy performance of buildings	Maintenance and expansion of the energy monitoring system to include new electricity meter points at the Cologne and Ulm sites in order to measure consumption and energy flows at additional points		c)	

The following table shows the proportion of total revenue, total CapEx, and total OpEx associated with taxonomy-eligible and taxonomy-non-eligible economic activities pursuant to the EU Taxonomy Regulation.

Proportion of total revenue, total CapEx, and total OpEx associated with taxonomy-eligible and taxonomy-non-eligible economic activities

	Total	**Proportion associated with taxonomy-eligible economic activities**		Proportion associated with taxonomy-non-eligible economic activities	
Revenue	€1,617.3 million[1]	**3.3%[2]**	**€53.6 million**	96.7%	€1,563.7 million
CapEx	€72.5 million	**6.2%**	**€4.5 million**	93.8%	€68.0 million
OpEx	€99.8 million	**23.0%**	**€22.9 million**	77.0%	€76.9 million

[1] See also 'Income statement' in the notes to the consolidated financial statements, p. 130.
[2] See also 'Product stewardship', share of consolidated revenue attributable to E-DEUTZ, p. 111.

UN GLOBAL COMPACT AND SUSTAINABLE DEVELOPMENT GOALS

Because it operates within global value chains, DEUTZ has an influence on economic, environmental, and social developments. The Company is aware of the responsibility that comes with this, and as a consequence signed up to the **United Nations Global Compact** at the end of March 2021. DEUTZ has thus joined an international movement from the realms of business, politics, and civil society that has the common goal of making globalization more sustainable by making it work better for society and the environment.

As a member of the UNGC, DEUTZ has voluntarily undertaken – on the basis of ten universally accepted principles – to promote human rights, fair working conditions, environmental protection, and the fight against corruption. The Company must also submit a progress report once a year. The communication on progress (**CoP**), as the report is called, describes the practical actions that the Company has taken or plans to take in support of the ten UNGC principles.

COMMUNICATION ON PROGRESS

UN GLOBAL COMPACT

This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

This non-financial report serves as DEUTZ's CoP. The following table lists the chapters in this non-financial report that illustrate the implementation of the ten UNGC principles.

UNGC index

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights.
HR management, p. 101 onward
Occupational health and safety, p. 104 onward
Corporate governance and compliance, p. 98 onward

2. Businesses should make sure that they are not complicit in human rights abuses.
Corporate governance and compliance, p. 98 onward
HR management, p. 101 onward
Supplier management, p. 107 onward

Labour

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
HR management, p. 101 onward
Supplier management, p. 107 onward

4. Businesses should uphold the elimination of all forms of forced and compulsory labour.
Corporate governance and compliance, p. 98 onward
HR management, p. 101 onward
Supplier management, p. 107 onward

5. Businesses should uphold the effective abolition of child labour.
Corporate governance and compliance, p. 98 onward
Supplier management, p. 107 onward

6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.
HR management, p. 101 onward

Environment

7. Businesses should support a precautionary approach to environmental challenges.
Product stewardship, p. 110 onward
Environmental and climate protection, p. 115 onward
Supplier management, p. 107 onward

8. Businesses should undertake initiatives to promote greater environmental responsibility.
Environmental and climate protection, p. 115 onward
Supplier management, p. 107 onward
Corporate citizenship, p. 114

9. Businesses should encourage the development and diffusion of environmentally friendly technologies.
Product stewardship, p. 110 onward
Environmental and climate protection, p. 115 onward
Corporate citizenship, p. 114 onward

Anti-corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.
Corporate governance and compliance, p. 98 onward
HR management, p. 101 onward
Supplier management, p. 107 onward

SDGs prioritized by the DEUTZ Group

In addition to the ten principles outlined above, signatories to the UNGC are also called upon to support the achievement of the United Nations' general objectives and, in particular, its 17 sustainable development goals (SDGs). The goals describe the key challenges and objectives in the context of a global sustainability policy and thus provide guidelines for the sustainable development of society, culture, and the economy.

DEUTZ used the SDG Action Manager tool to define the SDGs that are relevant to, or are to be prioritized by, the Company. Based on the findings, the DEUTZ Sustainable Development Committee (SDC) identified those SDGs to which the Company is already making a relatively high positive contribution through the implementation of the groupwide sustainability strategy. Going forward, the prioritized SDGs will be incorporated into the strategic planning for all groupwide sustainability activities. At the end of 2021, for example, the SDC ran a workshop in which it analyzed the SDG targets and defined specific measures aimed at steadily increasing the contribution that DEUTZ makes to achieving them.

The following index presents the key aspects of the DEUTZ sustainability strategy in the context of the SDGs and targets prioritized by the Company.

SDG index

Sustainable development goals		How DEUTZ is helping to achieve them	
Goal	**Targets**	**Activities and actions**	**Key figures**
SDG 3 | Ensure healthy lives and promote well-being for all at all ages	▪ 3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination	▪ Occupational health and safety management and ISO 45001 certification (p. 105) ▪ Risk assessments and health and safety inspections (p. 105) ▪ Handling of hazardous substances (p. 105)	▪ Recordable incident rate (p. 106)
SDG 5 | Achieve gender equality and empower all women and girls	▪ 5.1 End all forms of discrimination against all women and girls everywhere ▪ 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life	▪ Corporate culture (p. 101) ▪ Diversity and equality-friendly management culture (p. 102) ▪ DEUTZ code of conduct (p. 98) ▪ Whistleblowing system (p. 99) ▪ Code of conduct for suppliers (p. 107)	▪ Proportion of women in the workforce (p. 102) ▪ Proportion of women in management positions (p. 102)
SDG 7 | Ensure access to affordable, reliable, sustainable and modern energy for all	▪ 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix ▪ 7.3 By 2030, double the global rate of improvement in energy efficiency	▪ Measures to reduce energy consumption (p. 116) ▪ Nicolaus August Otto Award (p. 114)	–
SDG 8 | Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	▪ 8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead ▪ 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value ▪ 8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training ▪ 8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms ▪ 8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment	▪ Materials compliance (p. 109) ▪ E-DEUTZ (p. 111) ▪ Innovative internal combustion engines (p. 111) ▪ Environmentally responsible and resource-efficient services (p. 112) ▪ Innovation platform (p. 113) ▪ Nicolaus August Otto Award (p. 114) ▪ Measures to reduce energy consumption (p. 116) ▪ Carbon emissions (p. 117) ▪ Nitrogen oxide and particulate emissions (p. 117) ▪ Volume of waste (p. 118) ▪ DEUTZ code of conduct (p. 98) ▪ Corporate culture (p. 101) ▪ Representation of interests and codetermination (p. 101) ▪ Diversity and equality-friendly management culture (p. 102) ▪ Training (p. 103) ▪ Staff turnover (p. 104) ▪ Supplier management (p. 107) ▪ Code of conduct for suppliers (p. 107) ▪ Monitoring and assessing the sustainability performance of suppliers (p. 108) ▪ Nurturing young people (p. 114)	▪ E-DEUTZ share (p. 111) ▪ Reduction of carbon emissions at the production sites (p. 117) ▪ Reduction of carbon emissions per manufactured engine at the production sites (p. 117) ▪ Reduction of nitrogen oxide emissions per manufactured engine at the production sites (p. 118) ▪ Reduction of particulate emissions per manufactured engine at the production sites (p. 118) ▪ Proportion of workforce to have completed compliance training (p. 99) ▪ Proportion of new suppliers to have had their compliance with the supplier code of conduct verified (p. 108) ▪ Number of suppliers that have undergone business partner compliance checks (p. 108) ▪ Proportion of suppliers assessed against sustainability criteria (p. 108) ▪ Ratio of trainees to total employees (p. 103) ▪ Staff turnover (p. 104)

Sustainable development goals		How DEUTZ is helping to achieve them	
Goal	**Targets**	**Activities and actions**	**Key figures**
SDG 9 | Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	▪ 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities	▪ E-DEUTZ (p. 111) ▪ Innovative internal combustion engines (p. 111) ▪ Innovation platform (p. 113) ▪ Nicolaus August Otto Award (p. 114) ▪ Measures to reduce energy consumption (p. 116) ▪ Carbon emissions (p. 117) ▪ Nitrogen oxide and particulate emissions (p. 117)	▪ E-DEUTZ share (p. 111)
SDG 12 | Ensure sustainable consumption and production patterns	▪ 12.2 By 2030, achieve the sustainable management and efficient use of natural resources ▪ 12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment ▪ 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse	▪ Materials compliance (p. 109) ▪ E-DEUTZ (p. 111) ▪ Innovative internal combustion engines (p. 111) ▪ Environmentally responsible and resource-efficient services (p. 112) ▪ Innovation platform (p. 113) ▪ Nicolaus August Otto Award (p. 114) ▪ Measures to reduce energy consumption (p. 116) ▪ Carbon emissions (p. 117) ▪ Nitrogen oxide and particulate emissions (p. 117) ▪ Volume of waste (p. 118)	▪ E-DEUTZ share (p. 111) ▪ Reduction of carbon emissions at the production sites (p. 117) ▪ Reduction of carbon emissions per manufactured engine at the production sites (p. 117) ▪ Reduction of nitrogen oxide emissions per manufactured engine at the production sites (p. 118) ▪ Reduction of particulate emissions per manufactured engine at the production sites (p. 118) ▪ Reduction in the volume of waste requiring disposal (p. 118)
SDG 13 | Take urgent action to combat climate change and its impacts	▪ 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries ▪ 13.2 Integrate climate change measures into national policies, strategies and planning	▪ E-DEUTZ (p. 111) ▪ Innovative internal combustion engines (p. 111) ▪ Innovation platform (p. 113) ▪ Nicolaus August Otto Award (p. 114) ▪ Measures to reduce energy consumption (p. 116) ▪ Carbon emissions (p. 117) ▪ Nitrogen oxide and particulate emissions (p. 117) ▪ Volume of waste (p. 118)	▪ E-DEUTZ share (p. 111) ▪ Reduction of carbon emissions at the production sites (p. 117) ▪ Reduction of carbon emissions per manufactured engine at the production sites (p. 117) ▪ Reduction of nitrogen oxide emissions per manufactured engine at the production sites (p. 118) ▪ Reduction of particulate emissions per manufactured engine at the production sites (p. 118)
SDG 16 | Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	▪ 16.2 End abuse, exploitation, trafficking and all forms of violence against and torture of children ▪ 16.5 Substantially reduce corruption and bribery in all their forms	▪ DEUTZ code of conduct (p. 98) ▪ E-learning courses and classroom-based training (p. 99) ▪ Whistleblowing system (p. 99) ▪ DEUTZ code of conduct for suppliers (p. 107) ▪ Monitoring and assessing the sustainability performance of suppliers (p. 108) ▪ Business partner compliance (p. 99, 108)	▪ Proportion of workforce to have completed compliance training (p. 99) ▪ Proportion of new suppliers to have had their compliance with the supplier code of conduct verified (p. 108) ▪ Number of suppliers that have undergone business partner compliance checks (p. 108) ▪ Proportion of suppliers assessed against sustainability criteria (p. 108)

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

To DEUTZ AG, Köln

We have performed a limited assurance engagement on the combined separate non-financial report of DEUTZ AG, Köln, (hereinafter the "Company") for the period from 01 January 2021 to 31 December 2021 (hereinafter the "Combined Separate Non-financial Report").

Not subject to our assurance engagement are the external sources of documentation or expert opinions mentioned in the Combined Separate Non-financial Report.

RESPONSIBILITY OF THE EXECUTIVE DIRECTORS

The executive directors of the Company are responsible for the preparation of the Combined Separate Non-financial Report in accordance with §§ (Articles) 315c in conjunction with 289c to 289e HGB ("Handelsgesetzbuch": "German Commercial Code") and Article 8 of REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18. June 2020 on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (hereinafter the "EU Taxonomy Regulation") and the Delegated Acts adopted thereunder, as well as for making their own interpretation of the wording and terms contained in the EU Taxonomy Regulation and the Delegated Acts adopted thereunder, as set out in section Information on the Taxonomy Regulation (EU) 2020/852 of the Combined Separate Non-financial Report.

This responsibility includes the selection and application of appropriate non-financial reporting methods and making assumptions and estimates about individual non-financial disclosures of the Group that are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal controls as the executive directors consider necessary to enable the preparation of a Combined Separate Non-financial Report that is free from material misstatement whether due to fraud or error.

[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.

The EU Taxonomy Regulation and the Delegated Acts issued thereunder contain wording and terms that are still subject to considerable interpretation uncertainties and for which clarifications have not yet been published in every case. Therefore, the executive directors have disclosed their interpretation of the EU Taxonomy Regulation and the Delegated Acts adopted thereunder in section Information on the Taxonomy Regulation (EU) 2020/852 of the Combined Separate Non-financial Report. They are responsible for the defensibility of this interpretation. Due to the immanent risk that indeterminate legal terms may be interpreted differently, the legal conformity of the interpretation is subject to uncertainties.

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.

RESPONSIBILITY OF THE ASSURANCE PRACTITIONER

Our responsibility is to express a conclusion with limited assurance on the Combined Separate Non-financial Report based on our assurance engagement.

We conducted our assurance engagement in accordance with 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 obtain limited assurance about whether any matters have come to our attention that cause us to believe that the Company's Combined Separate Non-financial Report, other than the external sources of documentation or expert opinions mentioned in the Combined Separate Non-financial Report, are not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section Information on the Taxonomy Regulation (EU) 2020/852 of the Combined Separate Non-financial Report.

In a limited assurance engagement the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly a substantially lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgement of the assurance practitioner.

In the course of our assurance engagement, we have, amongst other things, performed the following assurance procedures and other activities:

- Gain an understanding of the structure of the Group's sustainability organisation and stakeholder engagement
- Inquiries of relevant employees involved in the preparation of the Combined Separate Non-financial Report about the preparation process, about the internal control system relating to this process and about disclosures in the Combined Separate Non-financial Report
- Identification of likely risks of material misstatement in the Combined Separate Non-financial Report
- Analytical procedures on selected disclosures in the Combined Separate Non-financial Report
- Reconciliation of selected disclosures with the corresponding data in the consolidated financial statements and group management report
- Evaluation of the presentation of the Combined Separate Non-financial Report
- Evaluation of the process to identify taxonomy-eligible economic activities and the corresponding disclosures in the Combined Separate Non-financial Report

In determining the disclosures in accordance with Article 8 of the EU Taxonomy Regulation, the executive directors are required to interpret undefined legal terms. Due to the immanent risk that undefined legal terms may be interpreted differently, the legal conformity of their interpretation and, accordingly, our assurance engagement thereon are subject to uncertainties.

ASSURANCE OPINION

Based on the assurance procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Combined Separate Non-financial Report of the Company for the period from 01 January 2021 to 31 December 2021 is not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section Information on the Taxonomy Regulation (EU) 2020/852 of the Combined Separate Non-financial Report.

We do not express an assurance opinion on the external sources of documentation or expert opinions mentioned in the Combined Separate Non-financial Report.

RESTRICTION OF USE

We draw attention to the fact that the assurance engagement was conducted for the Company's purposes and that the report is intended solely to inform the Company about the result of the assurance engagement. Consequently, it may not be suitable for any other purpose than the aforementioned. Accordingly, the report is not intended to be used by third parties for making (financial) decisions based on it. Our responsibility is to the Company. We do not accept any responsibility to third parties. Our assurance opinion is not modified in this respect.

Frankfurt, 09 March 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke
Wirtschaftsprüfer
[German public auditor]

ppa. Juliane v. Clausbruch

INDEX FOR 2021 CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	2021	2020
Revenue	1	**1,617.3**	**1,295.6**
Cost of sales	2	–1,331.7	–1,105.9
Research and development costs	3	–90.9	–97.7
Selling expenses	4	–103.2	–100.7
General and administrative expenses	4	–61.6	–45.8
Other operating income	5	27.0	15.0
Other operating expenses	6	–22.4	–68.3
Impairment of financial assets and reversals thereof		–0.2	–1.3
Profit/loss on equity-accounted investments	7	–0.8	1.4
Other net investment income	7	0.6	1.1
EBIT		**34.1**	**–106.6**
thereof exceptional items		–3.1	–31.9
thereof operating profit (EBIT before exceptional items)		37.2	–74.7
Interest income	8	0.2	0.7
Interest expense	8	–5.2	–4.3
Other financial income	8	0.0	–0.4
Financial income, net	8	**–5.0**	**–4.0**
Net income before income taxes		**29.1**	**–110.6**
Income taxes	9	9.1	3.0
Net income		**38.2**	**–107.6**
thereof attributable to shareholders of DEUTZ AG		38.2	–107.6
thereof attributable to non-controlling interests		0.0	0.0
Earnings per share (basic/diluted, €)	10	**0.32**	**–0.89**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million

	Note	2021	2020
Net income		**38.2**	**–107.6**
Amounts that will not be reclassified to the income statement in the future	11	**7.6**	**–6.2**
Remeasurements of defined benefit plans		7.6	–6.2
Amounts that will be reclassified to the income statement in the future if specific conditions are met	11	**7.6**	**–4.0**
Currency translation differences		9.7	–5.5
thereof profit/loss on equity-accounted investments		5.5	–1.7
Effective portion of change in fair value from cash flow hedges		–2.1	1.5
Fair value of financial instruments		0.0	0.0
Other comprehensive income, net of tax	11	**15.2**	**–10.2**
Comprehensive income		**53.4**	**–117.8**
thereof attributable to shareholders of DEUTZ AG		53.4	–117.8
thereof attributable to non-controlling interests		0.0	0.0

BALANCE SHEET FOR THE DEUTZ GROUP

€ million

Assets	Note	**Dec. 31, 2021**	Dec. 31, 2020
Property, plant and equipment	12	358.9	361.7
Intangible assets	13	181.8	197.2
Equity-accounted investments	14	56.4	50.3
Other financial assets	15	11.1	4.4
Non-current assets (before deferred tax assets)		**608.2**	**613.6**
Deferred tax assets	16	88.6	74.2
Non-current assets		**696.8**	**687.8**
Inventories	17	375.3	274.2
Trade receivables	18	135.7	113.8
Other receivables and assets	18	40.3	32.8
Receivables in respect of tax refunds		5.9	7.2
Cash and cash equivalents	19	36.1	64.7
Current assets		**593.3**	**492.7**
Total assets		**1,290.1**	**1,180.5**

Equity and liabilities	Note	**Dec. 31, 2021**	Dec. 31, 2020
Issued capital		**309.0**	**309.0**
Additional paid-in capital		28.8	28.8
Other reserves		3.7	–3.9
Retained earnings and accumulated income		246.9	201.1
Equity attributable to shareholders of DEUTZ AG		**588.4**	**535.0**
Non-controlling interests		0.0	0.2
Equity	20	**588.4**	**535.2**
Provisions for pensions and other post-retirement benefits	21	126.7	148.5
Deferred tax liabilities	16	1.8	0.6
Other provisions	22	33.4	37.5
Financial debt	23	49.2	58.3
Other liabilities	24	3.6	5.9
Non-current liabilities		**214.7**	**250.8**
Provisions for pensions and other post-retirement benefits	21	11.1	11.9
Other provisions	22	85.6	83.3
Financial debt	23	66.6	90.2
Trade payables	24	257.8	153.0
Liabilities arising from income taxes		3.0	2.0
Other liabilities	24	62.9	54.1
Current liabilities		**487.0**	**394.5**
Total equity and liabilities		**1,290.1**	**1,180.5**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

€ million

	Issued capital[3]	Additional paid-in capital[3]	Retained earnings / accumulated income[3]	Fair value reserve[1,2]	Currency translation reserve[1]	Equity attributable to shareholders of DEUTZ AG	Non-controlling interests[3]	Total[3]
Balance at Jan. 1, 2020	**309.0**	**28.8**	**314.3**	**–0.4**	**0.5**	**652.2**	**0.2**	**652.4**
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
Repayment of capital contributions to non-controlling interests						0.0	0.0	0.0
Balance at Dec. 31, 2020	**309.0**	**28.8**	**201.1**	**1.1**	**–5.0**	**535.0**	**0.2**	**535.2**
Balance at Jan. 1, 2021	**309.0**	**28.8**	**201.1**	**1.1**	**–5.0**	**535.0**	**0.2**	**535.2**
Net income			38.2			38.2	0.0	38.2
Other comprehensive income			7.6	–2.1	9.7	15.2	0.0	15.2
Comprehensive income			45.8	–2.1	9.7	53.4	0.0	53.4
Changes to basis of consolidation			0.0			0.0		0.0
Repayment of capital contributions to non-controlling interests						0.0	–0.2	–0.2
Balance at Dec. 31, 2021	**309.0**	**28.8**	**246.9**	**–1.0**	**4.7**	**588.4**	**0.0**	**588.4**

[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
[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	2021	2020
EBIT		**34.1**	**–106.6**
Income taxes paid		–4.3	–5.5
Depreciation, amortization and impairment of non-current assets		89.0	106.4
Gains/losses on the sale of non-current assets		–0.2	0.1
Profit/loss and impairment on equity-accounted investments		1.5	–0.9
Other non-cash income and expenses		–1.2	0.1
Change in working capital		–0.8	55.1
Change in inventories		–94.1	43.2
Change in trade receivables		–18.0	37.4
Change in trade payables		111.3	–25.5
Change in other receivables and other current assets		–7.2	49.6
Change in provisions and other liabilities (excluding financial liabilities)		–17.6	–53.4
Cash flow from operating activities		**93.3**	**44.9**
Capital expenditure on intangible assets, property, plant and equipment		–61.7	–75.9
Expenditure on investments		–5.8	0.0
Acquisition of subsidiaries		–0.6	–1.1
Proceeds from the sale of non-current assets		0.9	0.8
Cash flow from investing activities		**–67.2**	**–76.2**
Interest income		0.1	0.1
Interest expense		–4.6	–4.6
Repayment of capital contributions to non-controlling interests		–0.2	0.0
Cash receipts from borrowings		15.0	88.0
Repayments of loans	23	–50.8	–27.4
Principal elements of lease payments		–15.6	–14.6
Cash flow from financing activities		**–56.1**	**41.5**
Cash flow from operating activities		93.3	44.9
Cash flow from investing activities		–67.2	–76.2
Cash flow from financing activities		–56.1	41.5
Change in cash and cash equivalents		**–30.0**	**10.2**
Cash and cash equivalents at Jan. 1		**64.7**	**55.3**
Change in cash and cash equivalents		–30.0	10.2
Change in cash and cash equivalents related to exchange rates		1.4	–1.1
Change in cash and cash equivalents related to the basis of consolidation		0.0	0.3
Cash and cash equivalents at Dec. 31	19	**36.1**	**64.7**

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 21, 2022.

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 millions of 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 2020 with the exceptions set out below.

'Interest Rate Benchmark Reform – Phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) In August 2020, the IASB published the results of the second phase of its project that addresses interest-rate benchmark reforms. The recognition of financial assets, financial liabilities, lease liabilities and hedges, and the disclosure requirements, are among the areas that are affected. Where the IBOR reform results in changes to the contractual cash flows, financial instruments are to be recognized using a practical expedient in which only the effective interest rate is updated. It should be noted with regard to hedge accounting that hedging relationships should be amended, but not necessarily discontinued, due to the IBOR reform provided that other qualifying criteria to apply hedge accounting are met. The amendments also require the disclosure of additional information, including on the application of the new interest-rate benchmarks and the changes to the risk management strategy. Early adoption was permitted, but DEUTZ did not take up this option. The transition to the new interest-rate benchmark was completed with effect from December 31, 2021. The new interest-rate benchmark is defined as €STR plus 8.5 basis points. Initial application of these amendments has not had any material impact on the consolidated financial statements.

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

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 2021 and DEUTZ has not opted to apply these interpretations or amendments to standards before the mandatory application date.

'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, or 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.

'COVID-19-Related Rent Concessions beyond 30 June 2021' (Amendment to IFRS 16) In March 2021, the IASB published changes to the practical expedients that had been published in May 2020 in respect of COVID-19-related rent concessions. The practical expedient published on May 28, 2020 gives lessees the option of not recognizing rent concessions as a lease modification, provided that certain conditions are met. In particular, this exemption could be applied to reduced rental payments that were due on or before June 30, 2021. As a result of the amendment published on March 31, this due date has been put back from June 30, 2021 to June 30, 2022. The amendment applies to financial years commencing on or after April 1, 2021. Early adoption is permitted. DEUTZ is not using this practical expedient, so the amendments are not expected to have any impact on the DEUTZ Group's consolidated financial statements.

IFRS 17 'Insurance Contracts' The IASB published IFRS 17 in May 2017 and amended it in June 2020. The new standard replaces IFRS 4 'Insurance Contracts'. IFRS 17 governs the accounting treatment of insurance contracts to ensure that they are measured and presented consistently. The standard and amendments are effective for financial years commencing on or after January 1, 2023. They are not expected to have any impact on the DEUTZ Group's consolidated financial statements.

Annual Improvements to IFRS Standards 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.

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. The initial application of these amendments is not expected to have a material impact on the Group's consolidated financial statements.

'Disclosure of Accounting Policies' (Amendments to IAS 1 and IFRS Practice Statement 2) In February 2021, the IASB published amendments to IAS 1 and IFRS Practice 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. 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.

'Deferred Tax related to Assets and Liabilities arising from a Single Transaction' (Amendments to IAS 12) The IASB published amendments to IAS 12 in May 2021. As a result of these amendments, deferred tax assets and liabilities have to be recognized on temporary differences that arise from one transaction and are for the same amount, for example in the context of leases or decommissioning obligations. The amendments come into force for transactions in reporting periods commencing on or after January 1, 2023. Furthermore, the amounts for the earliest comparative period presented must be adjusted if the temporary differences arise in connection with leases and decommissioning obligations. 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.

'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.

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. In 2020, there had been a significant impact on the DEUTZ Group's medium-term planning as a result of the COVID-19 pandemic. The planning that was based on the assessments as at December 31, 2020 showed a reduction in the first two years of the plan. The current planning, based on the assessments as at December 31, 2021, is showing an improvement.

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, 2021, the carrying amount of deferred tax assets recognized in respect of tax loss carryforwards amounted to €68.2 million (December 31, 2020: €47.7 million). Further details can be found in Note 16 on page 161 f.

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, 2021, the carrying amount of capitalized development expenditure was €86.5 million (December 31, 2020: €92.6 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 189.

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 ten German subsidiaries (2020: nine) and 22 foreign subsidiaries (2020: 22).

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

DEUTZ Japan GK, Tokyo, Japan, and DEUTZ Deutschland GmbH, Stockstadt am Rhein, Germany, were established in the fourth quarter. These changes did not have any material impact on the Group's financial position or financial performance.

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 2020, the consolidated financial statements included one foreign joint venture and two foreign entities (2020: one foreign entity) in accordance with the rules governing associates.

The associate DEUTZ Power Solution (Xuzhou) Co., Ltd., Xuzhou, Jiangsu, China, was included in DEUTZ AG's basis of consolidation with effect from October 1, 2021. DEUTZ holds 40 percent of the shares in this company through the subsidiary DEUTZ China Verwaltung GmbH, Cologne. The acquisition cost for the investment was €2.0 million. The first tranche of €1 million was paid in December 2021; the second tranche is to be paid within the next five years. Further information on associates can be found on page 189 of these notes to the financial statements.

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. There were no non-controlling interests as at December 31, 2021.

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 IN PRIOR PERIODS

FUTAVIS The contingent consideration amounted to €1.2 million as at the balance sheet date. Of the €1.3 million reduction in the contingent consideration compared with the end of the previous year (December 31, 2020: €2.5 million), €0.6 million is attributable to a payment and €0.7 million is due to the remeasurement of the remaining consideration. This decrease of €0.7 million in the contingent consideration was recognized in the income statement for 2021 under other operating income. The remaining contingent consideration comprises the fixed-price component discounted on the basis of the maturity-specific cost of borrowing.

DEUTZ AUSTRIA, PRO MOTOR SERVIS, MOTOR CENTER AUSTRIA Following the acquisition of these companies in October 2020, measurement of the net assets acquired was completed in the reporting year. As part of the purchase price allocation (PPA), unrecognized intangible assets (long-term customer relationships) amounting to €1.5 million and corresponding deferred tax liabilities of €0.4 million were identified and reclassified to the relevant line items on the balance sheet. The negative goodwill of €1.1 million resulting from the purchase price allocation (PPA) was recognized in current income and expense for the period under other operating income.

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	
		2021	2020	**2021**	2020
USA	USD	1.18	1.15	1.13	1.23
China	CNY	7.61	7.90	7.19	8.02
Morocco	MAD	10.64	10.85	10.52	10.90
Australia	AUD	1.58	1.66	1.56	1.59
Russia	RUB	87.33	84.22	85.30	91.47
UK	GBP	0.86	0.89	0.84	0.90

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, 2021, the material, completed development projects had the following remaining useful lives:

Engine series 2.9	7 years
Engine series 2.2	7 years
Engine series 3.6	5 years
Engine series 4.1	4 years
Engine series 6.1	4 years
Engine series 7.8	4 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 2021, changes to demand forecasts and cost estimates gave rise to indications of impairment, or reversals thereof, ('trigger events') on property, plant and equipment and on intangible assets. Subsequent impairment tests identified a need to recognize, or reverse, impairment losses on the affected engine series. For further details, see Note 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.

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 taxes 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.

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. In 2021, an investment of €3.8 million was made in Blue World Technologies Holding ApS, Aalborg, Denmark. The investment agreement sets out a total amount of €7.5 million for 11.91 percent of the shares in this company and is divided into two tranches. The second tranche is expected to be acquired in the first half of 2022 once official approval has been granted. The investment constitutes an equity instrument that was not acquired for trading purposes and DEUTZ elected to assign it to this category.

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 (currency derivatives) for hedging purposes as part of its business operations, in particular to reduce foreign currency risk in forecast transactions involving foreign currencies.

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 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), and at DEUTZ Italy 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 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.

NOTES TO THE INCOME STATEMENT

1. REVENUE

Breakdown of revenue by application segment and by timing of recognition in 2021

€ million

	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	Total
Construction Equipment	462.2	28.5			**490.7**
Material Handling	261.4	22.7			**284.1**
Agricultural Machinery	202.0	4.1			**206.1**
Stationary Equipment	78.9	41.4			**120.3**
Service	223.0	180.1			**403.1**
Miscellaneous/Marine	15.9	43.4	56.7	−3.0	**113.0**
Total	**1,243.4**	**320.2**	**56.7**	**−3.0**	**1,617.3**
thereof at a point in time	1,232.5	303.6	56.7	−3.0	**1,589.8**
thereof over a period of time	10.9	16.6	0.0	0.0	**27.5**

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 region in 2021

€ million

	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	Consolidation	Total
Europe/ Middle East/ Africa	803.8	193.7	36.1	−3.0	**1,030.6**
Americas	219.4	60.9	14.3		**294.6**
Asia-Pacific	220.2	65.6	6.3		**292.1**
Total	**1,243.4**	**320.2**	**56.7**	**−3.0**	**1,617.3**

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**

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 €2.8 million (2020: €2.7 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.

DEUTZ applies the practical expedients in accordance with IFRS 15.121, IFRS 15.63, and IFRS 15.94.

2. COST OF SALES

The cost of sales comprises the following cost items:

€ million	**2021**	2020
Cost of materials	908.7	735.4
Staff costs	210.4	194.9
Depreciation and amortization on property, plant and equipment and intangible assets (excl. R&D)	52.7	53.1
Other cost of sales items	159.9	122.5
Total	**1,331.7**	**1,105.9**

3. RESEARCH AND DEVELOPMENT COSTS

The table below gives a breakdown of research and development costs:

€ million	**2021**	2020
Cost of materials	23.8	16.7
Staff costs	51.2	47.7
Depreciation, amortization and impairment	20.8	37.2
Own work capitalized and reimbursements	–10.7	–12.0
Other research and development costs	5.8	8.1
Total	**90.9**	**97.7**

The figure for depreciation, amortization and impairment in the reporting year includes the reversal of impairment losses recognized on capitalized development expenditure in an amount of €4.4 million (2020: impairment losses of €10.8 million).

4. SELLING EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

Selling expenses amounted to €103.2 million in the year under review (2020: €100.7 million). General and administrative expenses came to €61.6 million (2020: €45.8 million). Both the selling expenses and the general and administrative expenses predominantly consisted of staff costs. The respective amounts were €72.3 million and €41.7 million (2020: €65.7 million and €32.1 million). Depreciation, amortization, and impairment was included in selling expenses in an amount of €6.0 million (2020: €9.8 million) and in general and administrative expenses in an amount of €9.4 million (2020: €6.4 million).

5. OTHER OPERATING INCOME

€ million	2021	2020
Income from recharged costs and services	4.5	2.8
Foreign currency gains	11.8	6.5
Income from the measurement of derivatives	1.0	1.0
Income from the reversal of provisions	0.5	0.0
Income from the derecognition of liabilities	0.7	0.0
Sundry other income	8.5	4.7
Total	**27.0**	**15.0**

The increase in other operating income was mainly attributable to foreign currency gains, a volume-related rise in the onward charging of costs to logistics partners, and the settlement reached with Torqeedo's former owners in the first quarter of 2021 regarding compensation for losses incurred due to a product recall in 2019.

6. OTHER OPERATING EXPENSES

€ million	2021	2020
Restructuring costs	3.1	31.9
Other expenses from the adjustment of provisions	5.6	13.0
Foreign currency losses	3.9	11.7
Expenses for pensions and other post-employment benefits	1.3	2.6
Other cost of fees, contributions and advice	2.3	3.6
Expenses in connection with the measurement of derivatives	1.3	1.0
Sundry other expenses	4.9	4.5
Total	**22.4**	**68.3**

Other operating expenses included restructuring costs of €3.1 million. These restructuring costs were the result of the efficiency program that was initiated at the beginning of 2020; they were recognized as an exceptional item. Exceptional items are defined as significant income generated or expenses incurred outside the scope of the Company's ordinary business activities that are unlikely to recur.

Lower provisions were recognized for onerous contracts in relation to orders on hand and for 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	2021	2020
Profit/loss on equity-accounted investments		
Income from equity-accounted investments	0.8	1.4
Expenses relating to equity-accounted investments	–1.6	0.0
Total	**–0.8**	**1.4**
Write-downs of equity-accounted investments	**0.0**	**0.0**
Other net investment income	**0.6**	**1.1**
Total	**–0.2**	**2.5**

Income from equity-accounted investments consisted of DEUTZ AG's share in the profits of its associate D. D. Power Holdings (Pty), South Africa. The expenses consisted of DEUTZ AG's share of the losses of the joint venture Hunan DEUTZ Power, Ltd., Changsha, China.

As in the previous year, other net investment income related to profits transferred by DEUTZ Sicherheit GmbH, Cologne.

8. FINANCIAL INCOME, NET

€ million	2021	2020
Interest income on credit balances with banks	0.1	0.0
Other interest income	0.1	0.7
Interest income	**0.2**	**0.7**
Interest paid on liabilities to banks	–2.1	–1.8
Interest paid on sales of receivables	–0.9	–0.8
Interest paid on lease liabilities	–1.4	–1.1
Other interest expense and similar charges	–0.8	–0.6
Interest expense	**–5.2**	**–4.3**
Other finance income/finance costs	**0.0**	**–0.4**
Financial income, net	**–5.0**	**–4.0**

No borrowing costs were capitalized in the reporting year, whereas borrowing costs of €0.1 million had been capitalized in 2020.

9. TAXES

Income taxes The following table gives a breakdown of income taxes:

€ million	2021	2020
Current tax expense	6.5	1.9
thereof unrelated to the reporting period	1.5	0.6
Deferred tax expense (+)/ deferred tax income (–)	–15.6	–4.9
thereof from temporary differences	7.0	–19.2
thereof from loss carryforwards	–22.6	14.3
Total tax expense (+)/ income (-)	**–9.1**	**–3.0**

The current income tax expenses predominantly related to current income generated by Group companies in 2021.

The deferred tax income included an expense of €7.0 million arising from temporary differences (2020: tax income of €19.2 million). These were mainly due to the differences in the recognition of provisions under IFRS and in the tax accounts.

It is likely that more loss carryforwards can be used over the upcoming medium-term period of five years, resulting in deferred tax income 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 31.44 percent (2020: 31.47 percent), comprising corporation tax at 15 percent, the solidarity surcharge (5.50 percent of the corporation tax), and trade tax at 15.61 percent based on an average assessment rate.

€ million	2021	2020
Net income before income taxes	**29.1**	**–110.6**
Anticipated tax expense (+)/ income (-)	9.2	–34.8
Effect from trade tax add-backs and deductions	0.1	0.2
Differing tax rates	0.0	–0.8
Effects of deferred taxes on loss carryforwards and of the utilization of current losses	–22.6	33.3
Effect of non-deductible expenses	1.3	0.7
Effect of consolidation adjustments	0.0	–0.6
Share of profit (loss) of equity-accounted investments	0.5	–0.3
Effect of tax-exempt income	–1.0	–1.1
Effect of potential dividend distributions	0.1	–0.2
Effects not related to the reporting period		
Prior-year tax payments	1.5	0.6
Deferred taxes resulting from prior-year adjustments	0.9	0.0
Other	0.9	0.0
Effective tax expense (+)/ income (–)	**–9.1**	**–3.0**
Effective tax rate (%)	**–31.3**	**2.7**

The tax effect arising from deferred taxes on loss carryforwards essentially resulted from the utilization 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 2021 or 2020 because there are no exercisable options to convert financial instruments with equity components.

	2021	2020
Net income attributable to shareholders of the DEUTZ Group (€ million)	38.2	–107.6
Weighted average number of shares outstanding (€ thousand)	120,862	120,862
Earnings per share (€)	**0.32**	**–0.89**

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	2021			2020		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Amounts that will not be reclassified to the income statement in the future	**11.2**	**–3.6**	**7.6**	**–9.0**	**2.8**	**–6.2**
Remeasurements of defined benefit plans	11.2	–3.6	7.6	–9.0	2.8	–6.2
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**6.6**	**1.0**	**7.6**	**–3.3**	**–0.7**	**–4.0**
Currency translation differences	9.7	0.0	9.7	–5.5	0.0	–5.5
thereof profit/loss on equity-accounted investments	5.5	0.0	5.5	–1.7	0.0	–1.7
Effective portion of change in fair value from cash flow hedges	–3.1	1.0	–2.1	2.2	–0.7	1.5
Fair value of financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other comprehensive income	**17.8**	**–2.6**	**15.2**	**–12.4**	**2.2**	**–10.2**

In 2021, gains totaling €0.6 million on cash flow hedges (2020: losses of €0.3 million) recognized in other comprehensive income during the year (prior to the inclusion of deferred taxes) were reclassified to other operating income 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, 2021	**279.9**	**568.0**	**341.6**	**13.7**	**1,203.2**
Currency translation differences	1.3	2.0	0.8	0.2	4.3
Additions	14.8	7.2	27.5	12.5	62.0
Investment grants	0.0	–0.2	0.0	0.0	–0.2
Disposals	–2.3	–5.3	–2.8	–0.4	–10.8
Changes to basis of consolidation	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.8	5.5	1.4	–7.7	0.0
Balance at Dec. 31, 2021	**294.5**	**577.2**	**368.5**	**18.3**	**1,258.5**

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, 2021	**133.4**	**451.1**	**257.0**	**0.0**	**841.5**
Currency translation differences	0.6	0.7	0.5	0.0	1.8
Depreciation	16.1	22.7	26.8	0.0	65.6
Impairment	0.0	0.0	0.0	0.0	0.0
Disposals	–2.1	–5.1	–2.1	0.0	–9.3
Changes to basis of consolidation	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.0	–0.1	0.1	0.0	0.0
Balance at Dec. 31, 2021	**148.0**	**469.3**	**282.3**	**0.0**	**899.6**
Net carrying amount at Dec. 31, 2021	**146.5**	**107.9**	**86.2**	**18.3**	**358.9**

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
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, 2019	**146.5**	**116.9**	**84.6**	**13.7**	**361.7**

Capital expenditure on property, plant and equipment (excluding right-of-use assets in connection with leases) mainly related to replacement investment in tools, equipment, and machinery. DEUTZ also invested in testing equipment for new drive systems and in IT equipment.

Of the additions in 2021, a sum of €17.7 million was attributable to right-of-use assets in connection with leases (2020: €32.4 million). Capital expenditure in respect of right-of-use assets was mainly attributable to the extension of leases for leased property and to new leases. Detailed information about right-of-use assets in connection with leases can be found on page 176.

Total government grants recognized as at December 31, 2021 amounted to €3.9 million (December 31, 2020: €4.1 million). In 2021, grants of €0.5 million (2020: €1.0 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 189.

13. INTANGIBLE ASSETS

Gross figures Cost of purchase/conversion	Goodwill	Internally generated intangible assets Completed	Internally generated intangible assets In development	Other intangible assets	Total
€ million					
Balance at Jan. 1, 2021	**54.4**	**463.2**	**30.0**	**189.4**	**737.0**
Currency translation differences	0.0	0.0	0.0	1.0	1.0
Additions	0.0	0.0	6.8	3.9	10.7
Investment grants	0.0	0.0	0.0	0.0	0.0
Disposals	−0.1	0.0	0.0	−4.6	−4.7
Changes to basis of consolidation	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.0	8.1	−8.1	0.0	0.0
Balance at Dec. 31, 2021	**54.3**	**471.3**	**28.7**	**189.7**	**744.0**

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, 2021	**0.0**	**385.3**	**15.3**	**139.3**	**539.9**
Currency translation differences	0.0	0.0	0.0	0.2	0.2
Amortization	0.0	17.3	0.0	9.7	27.0
Impairment	0.0	0.0	0.0	0.8	0.8
Reversals of impairment losses	0.0	−4.4	0.0	0.0	−4.4
Disposals	0.0	0.0	0.0	−1.3	−1.3
Reclassifications	0.0	0.0	0.0	0.0	0.0
Balance at Dec. 31, 2021	**0.0**	**398.2**	**15.3**	**148.7**	**562.2**
Net carrying amount at Dec. 31, 2021	**54.3**	**73.1**	**13.4**	**41.0**	**181.8**

Gross figures Cost of purchase/conversion	Goodwill	Internally generated intangible assets Completed	Internally generated intangible assets 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	Internally generated intangible assets 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	0.0	9.4	25.4
Impairment	0.0	10.8	2.0	5.0	17.8
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**

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 grants for tool costs and licenses.

Capital expenditure on intangible assets was mainly in connection with the development of the new 5.2 engine series.

The reversal of impairment losses on internally generated intangible assets, in an amount of €4.4 million, related to the capitalized development expenditure on an engine series that had previously been impaired and was the result of changes in market forecasts. This reversal of impairment losses was recognized under research and development costs in the income statement. The impairment testing of this asset was carried out at the level of the cash-generating unit represented by the engine series. The recoverable amount, calculated on the basis of the value in use of this cash-generating unit, stood at €17.9 million. The increase in value recognized arose in the DEUTZ Compact Engines segment. The pre-tax discount rate underlying the calculation was 6.9 percent.

The impairment loss of €0.8 million recognized on other intangible assets related to a license acquired for the sale and marketing of engines and resulted from deteriorating demand forecasts. The impairment loss was recognized under selling expenses in the income statement. The impairment testing of this asset was carried out at the level of the cash-generating unit represented by an engine series. The recoverable amount, calculated on the basis of the value in use of this cash-generating unit, stood at €8.7 million. The impairment loss recognized arose in the DEUTZ Customized Solutions segment. The pre-tax discount rate underlying the calculation was 7.0 percent.

Amortization relating to internally generated intangible assets, amounting to €17.3 million, was recognized under research and development costs in the income statement. Amortization relating to other intangible assets, amounting to €9.7 million, was split across all functional areas in the income statement.

Goodwill

The table below shows the allocation of goodwill to the Group’s business units.

€ 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, 2021	**40.3**	**0.0**	**0.0**	**8.3**	**5.7**	**0.1**	**54.4**
Additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	−0.1	−0.1
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance at Dec. 31, 2021	**40.3**	**0.0**	**0.0**	**8.3**	**5.7**	**0.0**	**54.3**

The disposals of €0.1 million were due to an adjustment of the purchase consideration for DEUTZ Austria.

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 ‘Futavis’ CGU, the detailed planning phase was extended by an additional rough planning period of one year in order to achieve a sustainable level prior to the transition to perpetuity. The cash flows beyond this period of five and six years respectively were extrapolated on the basis of 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.

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 9.3 percent (December 31, 2020: 9.6 percent). The discount rate was based on a risk-free interest rate of 0.1 percent (December 31, 2020: minus 0.2 percent) and a market risk premium of 7.5 percent (December 31, 2020: 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 ‘product line < 4 liters’ 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 ‘product line < 4 liters’ cash-generating unit:

Sensitivity analysis of recoverable amount – ‘product line < 4 liters’ CGU

Change in recoverable amount		Change in growth rate Terminal value (percentage points)		
€ million		**–0.5**	**0**	**+0.5**
	+1	–110.1	–92.4	–72.1
WACC change (percentage points)	**0**	–26.8	0.0	31.6
	–1	87.2	129.8	181.9

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	188.2	205.9	226.2
WACC change (percentage points)	**0**	271.5	298.3	329.9
	–1	385.5	428.1	480.2

‘Torqeedo’ business unit:

The market for electric drives in the automotive industry remains in a phase of expansion characterized by high growth rates. Technological innovations and stricter emissions standards mean that electric drives are increasingly being chosen over traditional internal combustion engines. Because of the possibility of certain electric drive technologies being transferred from the automotive to the marine sector, as has already happened to an extent, particularly in the case of batteries, Torqeedo’s management is working on the basis that the marine sector will follow a similar trend to that seen in the automotive sector, albeit with a time lag. The assumptions on which the budget figures are based for the ‘Torqeedo’ business unit therefore continue to include fast-rising demand for all-electric and hybrid drives.

On the cost side, management is assuming – as it had in 2020 – that manufacturing costs per unit will go down in the medium term. 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 previous year, management is assuming in its planning that the ratio of net working capital to revenue will fall slightly. This is to be primarily achieved through improved inventory management.

The pre-tax cost of capital used for discounting was 14.9 percent (December 31, 2020: 13.6 percent). The discount rate was based on a risk-free interest rate of 0.1 percent (December 31, 2020: minus 0.2 percent) and a market risk premium of 7.5 percent (December 31, 2020: 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 '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	–8.5	–6.4	–4.1
WACC change (percentage points)	**0**	–2.5	0.0	2.9
	–1	4.7	7.9	11.5

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	9.4	11.5	13.8
WACC change (percentage points)	**0**	15.4	17.9	20.8
	–1	22.6	25.8	29.4

'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 13.2 percent (December 31, 2020: 14.1 percent). The discount rate was based on a risk-free interest rate of 0.1 percent (December 31, 2020: minus 0.2 percent) and a market risk premium of 7.5 percent (December 31, 2020: 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.

Sensitivity analysis of recoverable amount – 'Futavis' CGU

Change in recoverable amount		Change in growth rate Terminal value (percentage points)		
€ million		**–0.5**	**0**	**+0.5**
	+1	–1.2	–0.9	–0.7
WACC change (percentage points)	**0**	–0.3	0.0	0.3
	–1	0.8	1.2	1.6

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	–0.3	–0.1	0.2
WACC change (percentage points)	**0**	0.5	0.8	1.1
	–1	1.6	2.0	2.4

Intangible assets with an indefinite useful life

As had also been the case at the end of 2020, 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	**2021**	2020
Jan. 1	**50.3**	**51.1**
Additions	2.0	0.0
Pro-rata profit/loss on equity-accounted investments	–0.8	1.4
Disposals	0.0	0.0
Impairment	0.0	0.0
Other changes arising from measurement using the equity method	4.9	–2.2
Dec. 31	56.4	**50.3**

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, 2021**	Dec. 31, 2020
Equity investments	4.0	0.3
Non-current securities	4.2	3.6
Cost of borrowing	0.2	0.5
Other	2.7	0.0
Total	**11.1**	**4.4**

Equity investments

This line item predominantly consists of the carrying amount of the equity investment in Blue World Technologies, Aalborg, Denmark.

Non-current securities

This line item on the balance sheet includes securities in the form of equities and bonds. The securities are mainly 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 €801.6 million for corporation tax (2020: €804.1 million) and €913.0 million for trade tax (2020: €916.3 million). The figures disclosed in 2020 for tax loss carryforwards (corporation tax: €809.0 million; trade tax: €921.2 million) were restated as a result of tax audit for previous years.

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, 2021**	Dec. 31, 2020
Non-current		
Deferred tax assets	88.6	74.2
Deferred tax liabilities	1.8	0.7
Current		
Current tax assets	5.9	7.2
Liabilities arising from income taxes	3.0	2.0

In 2021, the deferred tax assets net of deferred tax liabilities amounted to €88.6 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 €22.8 million (December 31, 2020: €26.0 million) for provisions for pensions and other post-retirement benefits and €0.4 million (December 31, 2020: minus €0.6) for measurement of cash flow hedges.

The following table shows the breakdown of deferred tax assets and liabilities:

€ million	**Dec. 31, 2021**		Dec. 31, 2020	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	0.0	31.7	0.0	36.4
Property, plant and equipment	1.4	15.9	1.2	12.6
Inventories	9.5	0.1	8.2	0.0
Receivables and other assets	3.1	0.9	2.0	0.7
Pensions	17.7	0.5	23.3	0.0
Other liabilities	34.6	0.8	41.2	0.3
Tax loss carryforwards	70.4	0.0	47.7	0.0
Deferred taxes (gross)	**136.7**	**49.9**	**123.6**	**50.0**
Netting	48.1	48.1	49.4	49.4
Deferred taxes (net)	88.6	1.8	**74.2**	**0.6**

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 €88.6 million (December 31, 2020: €74.2 million).

The decrease in deferred taxes in respect of temporary differences, which was recognized in other comprehensive income, was €2.8 million as at December 31, 2021 (December 31, 2020: increase of €0.7 million) and largely resulted from changes in provisions for pensions and other post-retirement benefits.

As at December 31, 2021, the DEUTZ Group had not recognized any deferred tax liabilities on temporary differences of €35.8 million (December 31, 2020: €29.9 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 tables show the amounts and expiry dates of the tax loss carryforwards on which deferred taxes have not been recognized:

Loss carryforwards in the Group on which deferred taxes have not been recognized

€ million	**Dec. 31, 2021**	Dec. 31, 2020
Corporation tax/solidarity surcharge	663.9	727.9
Trade tax	751.4	819.0

Thereof: expiry periods for German and international loss carryforwards in the Group

€ million	**Dec. 31, 2021**	Dec. 31, 2020
Up to 5 years	0.1	0.2
6 to 9 years	0.0	0.0
Indefinite		
Corporation tax/ solidarity surcharge	663.9	727.9
Trade tax	751.3	818.8

The figures disclosed in 2020 for loss carryforwards on which deferred taxes had not been recognized in full (corporation tax: €732.8 million, trade tax: €824.0 million) were restated following the result of tax audit for previous years.

17. INVENTORIES

€ million	Dec. 31, 2021	Dec. 31, 2020
Raw materials, consumables, bought-in parts and spare parts	224.5	172.4
Work in progress	44.2	33.2
Finished goods	106.6	68.6
Total	**375.3**	**274.2**

The cost of materials came to €908.7 million in the year under review (2020: €735.4 million).

Write-downs on raw materials, bought-in parts and spare parts totaled €3.4 million in the reporting year (2020: €9.5 million). As at December 31, 2021, the carrying amount of inventories written down to net realizable value was €91.9 million (December 31, 2020: €60.6 million).

The following table shows the change in the valuation allowance account for inventories:

€ million	2021	2020
Jan. 1	**44.9**	**41.2**
Changes	3.9	3.7
Dec. 31	**48.8**	**44.9**

18. RECEIVABLES AND OTHER ASSETS

€ million	Dec. 31, 2021	Dec. 31, 2020
Trade receivables	140.6	118.6
Less write-downs	−4.9	−4.8
Trade receivables (net)	**135.7**	**113.8**
Other receivables and assets		
Receivables arising from other taxes	11.8	5.3
Bonuses and other receivables from suppliers	5.6	3.4
Receivables remaining after sale of receivables	4.5	2.2
Receivables arising from investment grants	5.6	5.7
Receivables due from investments	2.2	0.6
thereof trade receivables	2.2	0.6
thereof other receivables	0.0	0.0
Derivative financial instruments	0.0	2.0
Advances paid	0.7	0.1
Sundry other receivables	9.9	13.5
Total	**40.3**	**32.8**

As at December 31, 2021, the volume of receivables sold under factoring agreements was €133.8 million (December 31, 2020: €107.1 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, 2021, the Group had access to factoring lines totaling €220.0 million (December 31, 2020: €225.0 million). They are revolving lines. In 2021, interest expense of €0.9 million (2020: €0.8 million) was recognized in connection with the sale of receivables.

As at December 31, 2021, there were receivables amounting to €4.5 million due from one factor (December 31, 2020: €2.2 million) in connection with the sale of receivables. The fair value of these receivables was also €4.5 million (December 31, 2020: €2.2 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, 2021 was limited to the amount receivable of €4.5 million (December 31, 2020: €2.2 million).

Trade receivables had been written down by an amount of €4.9 million as at December 31, 2021 (December 31, 2020: €4.8 million). The table showing the change in the valuation account can be found in Note 26 on page 179.

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, 2021 (December 31, 2020: €9.2 million). The table showing the change in the valuation account can be found in Note 26 on page 180.

There were no contract assets arising from contracts with customers as at December 31, 2021 or as at December 31, 2020.

19. CASH AND CASH EQUIVALENTS

As at December 31, 2021, cash and cash equivalents including cash on hand, short-term deposits, and credit balances with banks amounted to €36.1 million (December 31, 2020: €64.7 million). There were no access restrictions, as had also been the case in the previous year.

20. EQUITY

€ million	**Dec. 31, 2021**	Dec. 31, 2020
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	3.7	–3.9
Retained earnings and accumulated income	246.9	201.1
Equity attributable to the shareholders of the parent	588.4	535.0
Non-controlling interests	0.0	0.2
Total	**588.4**	**535.2**

Issued capital
At the end of 2021, the issued capital (share capital) of DEUTZ AG amounted to €308,978,241.98 (unchanged on the end of 2020) 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 2021 or in 2020.

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 gain on translation differences recognized in other reserves amounted to €4.7 million as at the end of 2021 (December 31, 2020: loss of €4.9 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, 2020: €4.5 million).

Non-controlling interests
The non-controlling interests in the comparative period had related 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). No dividend was paid in 2021.

Authorized capital

Authorized capital I

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 nominal amount of the as-yet unutilized authorized capital I was €92,693,470.30 as at December 31, 2021.

Authorized capital II

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 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.

The nominal amount of the as-yet unutilized authorized capital II was €61,795,646.86 as at December 31, 2021.

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 2021 came to €18.4 million (2020: €20.0 million). In addition, a further €1.9 million (2020: €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 2020.

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	**2021**	2020
Pension plans in Germany		
Present value of defined benefit obligation	134.0	153.7
Fair value of plan assets	6.1	5.9
Deficit (net liability)	**127.9**	**147.8**
Pension plans in the UK		
Present value of defined benefit obligation	30.7	29.7
Fair value of plan assets	27.3	24.3
Deficit (net liability)	**3.4**	**5.4**
Other pension plans		
Present value of defined benefit obligation	6.5	7.2
Fair value of plan assets	0.0	0.0
Deficit (net liability)	**6.5**	**7.2**
Total		
Present value of defined benefit obligation	171.2	190.6
Fair value of plan assets	33.4	30.2
Deficit (net liability)	**137.8**	**160.4**

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	**2021**	2020
Pension plans in Germany		
Active members	8.5	10.1
Deferred members	3.5	4.6
Pensioners	122.0	139.0
Present value of defined benefit obligation	**134.0**	**153.7**
Pension plans in the UK		
Active members	0.0	0.0
Deferred members	16.3	14.9
Pensioners	14.4	14.8
Present value of defined benefit obligation	**30.7**	**29.7**

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	**2021**	2020
Net liability as at Jan. 1	**160.4**	**163.6**
Amounts recognized in the income statement	0.3	1.1
Amounts recognized in other comprehensive income	–11.2	8.6
Employer contributions	–0.5	–0.4
Pension benefits paid	–11.5	–12.1
Effects of changes in foreign exchange rates	0.3	–0.5
Changes to basis of consolidation	0.0	0.1
Net liability as at Dec. 31	**137.8**	**160.4**

The following table shows the change in the present value of the defined benefit obligation:

Change in present value of defined benefit obligation

€ million	**2021**	2020
Defined benefit obligation as at Jan. 1	**190.6**	**195.3**
Service cost	0.0	0.0
Employee contributions	0.2	0.0
Interest expense	0.6	1.6
Unrecognized past service cost	0.0	0.0
Remeasurements	–9.9	9.8
thereof: experience adjustments	–2.2	–2.0
thereof: actuarial (gains)/losses arising from changes in biometric assumptions	–0.3	0.3
thereof: actuarial (gains)/losses arising from changes in financial assumptions	–7.4	11.5
Effects of changes in foreign exchange rates	2.1	–1.9
Pension benefits paid	–12.4	–14.3
Changes to basis of consolidation	0.0	0.1
Defined benefit obligation as at Dec. 31	**171.2**	**190.6**

As at December 31, 2021, the weighted average life of the bulk of the defined benefit obligation was 9.0 years (December 31, 2020: 9.6 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	2021	2020
Fair value of plan assets at Jan. 1	**30.2**	**31.7**
Employer contributions	0.5	0.4
Employee contributions	0.2	0.0
Interest income	0.3	0.5
Return on (+)/expenses (–) from plan assets (excl. interest income)	1.3	1.2
Pensions paid from plan assets	–0.9	–2.2
Currency translation differences	1.8	–1.4
Other	0.0	0.0
Fair value of plan assets at Dec. 31	**33.4**	**30.2**

Breakdown of plan assets

€ million	2021	2020
Cash and cash equivalents	0.0	0.0
Equity instruments (by region)		
UK	4.1	3.6
Europe (excl. UK)	2.5	2.2
North America	3.0	2.7
Japan	1.2	1.1
Asia-Pacific	1.2	1.1
Other	1.7	1.5
	13.7	**12.2**
Debt instruments		
Government bonds	4.6	4.1
Corporate bonds	9.0	8.0
	13.6	**12.1**
Reinsurance policies	6.1	5.9
Total	**33.4**	**30.2**

Market prices were available for all the equity and debt instruments because they are traded in active markets.

In view of the objective of protecting capital, the investment strategy is primarily aimed at achieving a balanced regional allocation for the investments and a combination of equity instruments and debt instruments.

The breakdown of the portions of the net pension cost recognized in current income and expense for 2021 and 2020 is as follows:

Net pension cost

€ million	2021	2020
Unrecognized past service cost	0.0	0.0
Net interest cost	0.3	1.1
Total	**0.3**	**1.1**

The actual return on plan assets in 2021 amounted to €1.6 million (2020: €1.7 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

%	2021	2020
Discount rate		
Germany	0.58	0.04
UK	1.80	1.40
Rate of pension increase		
Germany	1.75	1.75
UK	2.10	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

2021	**Impact on defined benefit obligation of**	
€ million		
	0.5 % rise	0.5 % fall
in discount rate		
Germany	–5.5	6.0
UK	–2.6	2.8
in rate of pension increase		
Germany	5.9	–5.4
UK	2.0	–1.7

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

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, 2021 would have been €14.5 million and €1.1 million respectively (December 31, 2020: €16.9 million and €1.0 million respectively).

The sensitivity calculations are based on the average duration of the pension obligations calculated as at November 30, 2021. In order to highlight the impact on the present value of the defined benefit obligations calculated as at December 31, 2021 separately, the calculations were carried out for each of the actuarial parameters deemed to be material and capable of changing.

Future cash flows

For 2022, the DEUTZ Group forecasts that its payments into pension plans will amount to €0.5 million (2021: €0.5 million). The following table shows the expected future benefit payments arising from defined benefit obligations:

Expected benefit payments

€ million	**Dec. 31, 2021**
2022	12.5
2023	11.7
2024	11.0
2025	10.5
2026	9.9
2027 – 2031	41.4

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

22. OTHER PROVISIONS

The following table gives a breakdown of other provisions:

€ million	2021			2020		
	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	45.3	33.4	11.9	48.3	35.5	12.8
Obligations to employees	34.1	17.8	16.3	27.3	7.9	19.4
Restructuring	8.3	5.3	3.0	19.3	16.3	3.0
Onerous contracts	20.6	20.6	0.0	15.9	15.9	0.0
Other	10.7	8.5	2.2	10.0	7.7	2.3
Total	**119.0**	**85.6**	**33.4**	**120.8**	**83.3**	**37.5**

The majority of the outflow of cash in connection with the provisions is expected to have materialized by 2024.

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 1.2 percent (December 31, 2020: 1.3 percent).

Other provisions cover all identifiable risks and other contingent liabilities. The main items are the cost of warranties and potential risks, provisions for obligations to employees, and onerous contracts. Warranty provisions are recognized for repair or replacement obligations in the event of manufacturing defects or other product defects, free reworking or replacements, purchase price reductions, and compensation for non-performance; they also include general provisions recognized for revenue in respect of which the warranty period had not expired by the reporting date. Provisions for obligations to employees predominantly consist of provisions for early retirement, pre-retirement part-time employment, bonuses, incentives, personnel obligations under share-based payment programs, and profit-sharing. Restructuring provisions relate to obligations under the program to optimize the network of sites and obligations under the Transform for Growth restructuring program. Onerous contracts include losses in relation to orders on hand. The other provisions essentially relate to obligations arising from legal risk and obligations under public law.

The following table shows the changes to other provisions in 2021:

€ million	Warranties	Obligations to employees	Restructuring	Onerous contracts	Other	**Total**
Jan. 1, 2021	**48.3**	**27.3**	**19.3**	**15.9**	**10.0**	**120.8**
Additions	3.2	24.0	3.2	4.7	1.9	37.0
Currency translation differences	0.2	0.0	0.0	0.0	0.3	0.5
Amounts utilized	–6.0	–15.2	–15.5	0.0	–1.5	–38.2
Reversals	–0.4	–0.7	0.0	0.0	0.0	–1.1
Reclassifications	0.0	–1.3	1.3	0.0	0.0	0.0
Dec. 31, 2021	**45.3**	**34.1**	**8.3**	**20.6**	**10.7**	**119.0**

23. FINANCIAL DEBT

€ million	**Dec. 31, 2021**				Dec. 31, 2020			
	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	53.7	50.5	3.2	0.0	89.5	76.0	13.5	0.0
Lease liabilities	61.3	15.9	39.2	6.2	58.0	14.0	36.4	7.6
Other financial debt	0.8	0.2	0.5	0.1	1.1	0.2	0.8	0.1
Total	**115.8**	**66.6**	**42.9**	**6.3**	**148.6**	**90.2**	**50.7**	**7.7**

Liabilities to banks

Current liabilities to banks mainly comprised syndicated loans amounting to €34.4 million (December 31, 2020: €65.0 million).

The syndicated working capital facility had been drawn down in an amount of €34.4 million as at December 31, 2021. 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 also has access to three bilateral credit lines, each in an amount of €25 million, which run until February 2023 and are also unsecured and floating-rate facilities. As part of its contractual agreements, DEUTZ has undertaken 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 €13.5 million. The fixed interest rates on the loans are 1.30 percent, 0.70 percent, and 0.65 percent. Because these loans of approximately €0.8 million have been used for capital expenditure in Spain, finance costs up to an interest rate of 1.0 percent are reimbursed by the Spanish government as part of a subsidy program.

In addition, our Chinese subsidiary DEUTZ Shanghai has agreed a credit line with the HSBC Shanghai branch totaling CNY 100 million (€13.9 million), of which CNY 40 million (€5.6 million) had been drawn down as at the balance sheet date.

Lease liabilities

The increase in lease liabilities was mainly attributable to the extension of leases for leased property and to new leases. Further details about the right-of-use assets and lease liabilities recognized can be found on page 176 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 184.

The weighted average interest rates (after hedging) of the financial debt are:

%	**Dec. 31, 2021**	Dec. 31, 2020
Liabilities to banks	1.23	1.57
Lease liabilities	2.40	2.41
Other financial debt	0.00	0.00

The liabilities to banks were denominated in euros or renminbi. Other financial debt was 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 2021:

€ million	Jan. 1, 2021	Cash changes	Non-cash changes: Acquisition of companies	Exchange rate effects	Fair value changes	Other changes	Dec. 31, 2021
Non-current financial debt							
Liabilities to banks	13.5					–10.3	3.2
Lease liabilities	44.0			1.6		–0.2	45.4
Other financial debt	0.8					–0.2	0.6
Total non-current financial debt	**58.3**	**0.0**	**0.0**	**1.6**	**0.0**	**–10.7**	**49.2**
Current financial debt							
Liabilities to banks	76.0	–35.8				10.3	50.5
Lease liabilities	14.0	–15.6		0.4		17.1	15.9
Other financial debt	0.2	–0.2				0.2	0.2
Total current financial debt	**90.2**	**–51.6**	**0.0**	**0.4**	**0.0**	**27.6**	**66.6**
Total financial debt	**148.5**	**–51.6**	**0.0**	**2.0**	**0.0**	**16.9**	**115.8**

€ million	Jan. 1, 2020	Cash changes	Non-cash changes: Acquisition 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**

24. TRADE PAYABLES AND OTHER LIABILITIES

€ million	Dec. 31, 2021	Dec. 31, 2020
Trade payables	**257.8**	**153.0**
Other liabilities		
Personnel-related liabilities	13.6	11.0
Price reduction liabilities	18.5	15.2
Liabilities to customers and factors	8.6	7.8
Advances received	3.1	4.4
Liabilities to investments	4.2	3.0
Liabilities arising from other taxes	4.9	4.3
Derivative financial instruments	1.3	0.0
Sundry other liabilities	12.3	14.3
Total	**66.5**	**60.0**

The other liabilities include current contract liabilities arising from contracts with customers:

€ million	Dec. 31, 2021	Dec. 31, 2020
Liabilities from discounts granted	18.5	15.2
Advances received	3.1	4.4
Total	**21.6**	**19.6**

In the reporting period, revenue of €2.8 million was recognized that, at the beginning of the reporting period, had been included as advances received in the balance of contract liabilities (2020: €2.7 million).

The Company had no significant unfulfilled performance obligations as at the reporting date (December 31, 2020: €0.1 million).

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 €0.7 million was included in cash flow from operating activities (2020: €0.5 million).

Cash and cash equivalents had fallen by €28.6 million to €36.1 million at the end of 2021 (December 31, 2020: €64.7 million).

Investing activities in respect of investments came to €5.8 million and related to the investment in Blue World Technologies, Aalborg, Denmark, of €3.8 million, a capital increase of €1.1 million at subsidiary DEUTZ Global Service Center, and the first tranche of the capital contribution to the joint venture DEUTZ Power Solution (Xuzhou) Co., Ltd., Xuzhou, China, of €1.0 million. DEUTZ established this associate with Beijing Fangda Diesel Engine Technology & Service Co., Ltd., Beijing, China, and SINOCHAIN Environment Protection Co., Ltd., Shanghai, China.

SEGMENT REPORTING

The following table provides an overview of the segments in the DEUTZ Group for 2021 and 2020.

2021	DEUTZ Compact Engines	DEUTZ Customized Solutions	Other	**Total segments**	Consolidation	**DEUTZ Group**
€ million						
External revenue	1,243.4	320.2	53.7	**1,617.3**	0.0	**1,617.3**
Intersegment revenue	0.0	0.0	3.0	**3.0**	–3.0	**0.0**
Total revenue	**1,243.4**	**320.2**	**56.7**	**1,620.3**	**–3.0**	**1,617.3**
Depreciation and amortization	77.2	10.3	5.1	**92.6**	0.0	**92.6**
Impairment of property, plant and equipment and intangible assets	0.8	0.0	0.0	**0.8**	0.0	**0.8**
Reversals of impairment losses on property, plant and equipment and intangible assets	–4.4	0.0	0.0	**–4.4**	0.0	**–4.4**
Profit/loss on equity-accounted investments	–0.8	0.0	0.0	**–0.8**	0.0	**–0.8**
Income from the reversal of provisions	0.5	0.0	0.0	**0.5**	0.0	**0.5**
Operating profit/loss (EBIT before exceptional items)	12.4	31.3	–6.5	**37.2**	0.0	**37.2**

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**

Reconciliation from overall profit of the segments to net income

€ million	2021	2020
Overall profit of the segments	**37.2**	**–74.7**
Consolidation	0.0	0.0
Operating profit (EBIT before exceptional items)	**37.2**	**–74.7**
Exceptional items	–3.1	–31.9
EBIT	**34.1**	**–106.6**
Financial income, net	–5.0	–4.0
Net income before income taxes	**29.1**	**–110.6**
Income taxes	9.1	3.0
Net income	**38.2**	**–107.6**

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 €3.0 million was eliminated in the reporting year (2020: €2.7 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	2021	2020
Engines	1,020.4	762.4
Service	223.0	181.4
DEUTZ Compact Engines	**1,243.4**	**943.8**
Engines	140.1	143.2
Service	180.1	166.9
DEUTZ Customized Solutions	**320.2**	**310.1**
Engines	54.8	42.7
Miscellaneous	1.9	1.7
Other	**56.7**	**44.4**
Consolidation	-3.0	-2.7
Total	**1,617.3**	**1,295.6**

Geographical information about external revenue

€ million	2021	2020
Germany	**324.8**	**241.6**
Outside Germany	**1,292.5**	**1,054.0**
Rest of Europe	648.8	532.8
Middle East	20.5	19.8
Africa	36.5	35.0
Americas	294.6	222.5
Asia-Pacific	292,1	243.9
Total	**1,617.3**	**1,295.6**

Of the European countries outside Germany, Switzerland accounted for €167.6 million in the reporting year (2020: €165.3 million), Sweden for €106.3 million (2020: €92.0 million), and France for €106.3 million (2020: €69.4 million).

Only one customer accounted for at least 10 percent of total revenue in 2021 (2020: two customers). The revenue from this customer amounted to €256.7 million (revenue from the two customers in 2020: €237.4 million and €154.1 million respectively) and was reported predominantly in the DEUTZ Compact Engines segment.

Geographical information about non-current assets

€ million	Dec. 31, 2021	Dec. 31, 2020
Germany	446.7	474.5
Outside Germany	150.7	134.7
Total	**597.4**	**609.2**

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.

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, 2021	**34.9**	**13.4**	**8.9**	**-**	**57.2**
Currency translation differences	0.7	1.0	0.0	-	1.7
Additions	14.4	0.1	3.2	-	17.7
Disposals	–0.2	0.0	–0.6	-	–0.8
Changes to basis of consolidation	0.0	0,0	0.0	-	0.0
Reclassifications	0.0	0.0	0.0	-	0.0
Depreciation and impairment	–11.3	–3.9	–3.2	-	–18.4
Balance at Dec. 31, 2021	**38.5**	**10.6**	**8.3**	**0.0**	**57.4**

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**

In the reporting period, the total cash outflow for leases (including payments for short-term leases and low-value leased assets) was €18.0 million (2020: €17.0 million).

The following amounts were recognized in profit or loss in 2021:

€ million	2021	2020
Depreciation of right-of-use assets	18.4	15.6
Interest paid on lease liabilities	1.4	1.1
Expense for short-term leases	0.1	0.5
Expense for leases with low-value assets	0.9	0.8
Total amount recognized in profit or loss	**20.8**	**18.0**

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 lease in the asset class 'real estate' that was signed but not yet recognized. This will give rise to future payments of €1.2 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, 2021. The expense for short-term leases amounted to €0.1 million in the reporting period (2020: €0.5 million). An overview of the terms of the lease liabilities is shown in Note 26.

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 €8.7 million. These are extension options of up to 14 years on property leases. 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 78 to 84 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 three bilateral credit lines that are each for an amount of €25 million and run until February 2023. 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, 2021	2022 cash payment	2023–2026 cash payments	>2026 cash payments	Total
€ million				
Lease liabilities	**–17.1**	**–41.0**	**–6.4**	**–64.5**
Primary financial instruments	**–50.6**	**–3.2**	**0.0**	**–53.8**
Derivative financial instruments	**–1.5**	**0.0**	**0.0**	**–1.5**
Currency derivatives				
thereof settled gross: cash payments	–37.8	0.0	0.0	–37.8
thereof settled gross: cash receipts	36.3	0,0	0.0	36.3
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, 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

b) Credit risk

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, or 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.

As at December 31, 2021, the bulk of the DEUTZ Group's trade receivables were insured with the COFACE 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 €2.0 million (December 31, 2020: €1.0 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:

1. Trade receivables

2. Debt instruments measured at amortized cost

3. 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, 2021	Category 1	Category 2	**Total**
€ million			
Gross carrying amount of trade receivables	128.6	7.8	**136.4**
Impairment	1.2	3.7	**4.9**

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**

The following tables show the changes in impairment losses on trade receivables in 2021 and 2020:

€ million	
Jan. 1, 2021	**4.8**
Changes to basis of consolidation	0.0
Additions	0.5
Utilized	−0.3
Reversals	−0.1
Dec. 31, 2021	**4.9**

€ 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**

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, 2020: €9.2 million).

The following tables show the changes in impairment losses on debt instruments measured at amortized cost in 2021 and 2020:

€ million	Level 1	Level 3
Jan. 1, 2021	**0.0**	**9.2**
Additions	0.0	0.0
Utilized	0.0	0.0
Reversals	0.0	0.0
Dec. 31, 2021	**0.0**	**9.2**

€ 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**

The gross carrying amounts of debt instruments assigned to Level 1 amounted to €17.1 million as at December 31, 2021 (December 31, 2020: €14.6 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, 2021 (December 31, 2020: €9.2 million), all of which (€9.2 million) was written down (December 31, 2020: €9.2 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, 2021 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 to trade receivables that have been earmarked for factoring. At the end of the reporting period, the maximum credit risk was limited to the carrying amounts of the debt instruments, which was €4.2 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 (€2.5 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

2021	Notional amounts	Impact on net income	Notional amounts	Impact on equity
USD	119.0	–10.4	1.6	3.3
CNY	17.4	–1.6	0.0	0.0
MAD	6.1	–0.6	0.0	0.0

€ 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

Euro falls by 10 percent

€ million

2021	Notional amounts	Impact on net income	Notional amounts	Impact on equity
USD	119.0	12.7	1.6	–4.2
CNY	17.4	1.9	0.0	0,0
MAD	6.1	0.7	0.0	0.0

€ 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

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, 2021, 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 €79.7 million, which equated to a year-on-year rise of €4.1 million (December 31, 2020: minus €83.8 million). In addition to the net financial position, free cash flow (defined as cash flow from operating activities and from investing activities less interest expense) 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 €21.6 million in 2021 (2020: minus €35.8 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, 2021, the equity ratio for the DEUTZ Group remained at a high level of 45.6 percent (December 31, 2020: 45.3 percent), meeting 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, 2021	**Measured at amortized cost**	**Measured at fair value**		**Assets not within the scope of IFRS 9**	
€ million					
		Through other comprehensive income	Through profit or loss	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial assets	**0.0**	**5.4**	**2.5**	**3.2**	**11.1**
Current financial assets	**184.7**	**0.0**	**4.2**	**29.1**	**218.0**
Trade receivables	131.5	0.0	4.2	0.0	135.7
Other receivables and assets	17.1	0.0	0.0	29.1	46.2
Cash and cash equivalents	36.1	0.0	0.0	0.0	36.1

Financial instruments (assets)

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

Financial instruments (liabilities)

Dec. 31, 2021	**Measured at amortized cost**	**Measured at fair value**		**Liabilities not within the scope of IFRS 9**	
€ million					
	Financial liabilities	Derivatives designated as hedging instruments (recognized in other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial liabilities	**4.4**	**0.0**	**0.6**	**47.8**	**52.8**
Financial debt	3.8	0.0	0.0	45.4	49.2
Lease liabilities	0.0	0.0	0.0	45.4	45.4
Miscellaneous financial debt	3.8	0,0	0.0	0.0	3.8
Other liabilities	0.6	0.0	0.6	2.4	3.6
Current financial liabilities	**361.2**	**1.2**	**0.7**	**25.9**	**389.0**
Financial debt	50.7	0.0	0,0	15.9	66.6
Lease liabilities	0.0	0.0	0.0	15.9	15.9
Miscellaneous financial debt	50.7	0.0	0.0	0.0	50.7
Trade payables	257.8	0.0	0.0	0.0	257.8
Other liabilities	52.7	1.2	0.7	10.0	64.6

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

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, 2021**		Dec. 31, 2020	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Trade receivables	131.5	131.5	107.7	107.7
Other receivables and assets	17.1	17.1	14.6	14.6
Cash and cash equivalents	36.1	36.1	64.7	64.7
Financial liabilities				
Financial debt – liabilities to banks	54.5	54.6	90.5	91.2
Trade payables	257.8	257.8	153.0	153.0
Other liabilities	52.7	52.7	45.2	45.2

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

The fair value of non-current financial assets and liabilities is computed by discounting estimated future cash flows using arm's length discount rates and taking into account the DEUTZ Group's own credit risk and that of its 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 disclosed in the notes to the financial statements:

Dec. 31, 2021

€ million

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Equity investments – recognized through other comprehensive income	3.7	3.7	3.7	0.0	0.0
Securities – recognized through other comprehensive income	1.7	1.7	1.7	0.0	0.0
Securities – recognized through profit or loss	2.5	2.5	2.5	0.0	0.0
Currency forwards – recognized through other comprehensive income	0.0	0.0	0.0	0.0	0.0
Currency forwards – recognized through profit or loss	0.0	0.0	0.0	0.0	0.0
Trade receivables	4.2	4.2	0.0	0.0	4.2
Financial liabilities					
Currency forwards – designated as hedging instruments	1.2	1.2	0.0	1.2	0.0
Currency forwards – held for trading	0.1	0.1	0.0	0.1	0.0
Other liabilities – held for trading	1.2	1.2	0.0	0.0	1.2
Financial debt	54.5	54.6	0.0	0.0	54.6

Dec. 31, 2020

€ million

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

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

The equity investment measured at fair value through other comprehensive income is the equity investment in Blue World Technologies, Aalborg, Denmark. The decision was made to assign it to this measurement category because it is a long-term equity investment in new drive technologies. This is a field of strategic importance to DEUTZ AG but is difficult to forecast as there are still significant uncertainties.

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) is calculated over the remaining term of the instrument using current exchange rates, market interest rates, and yield curves and taking into account the DEUTZ Group's own credit risk and that of its counterparties. The disclosures are based on valuations by banks.

The other liabilities recognized at fair value, which amounted to €1.2 million (December 31, 2020: €2.5 million), relate to the remaining contingent consideration for the purchase of the shares in Futavis. Fair value was determined using a method based on present value. The measurement particularly drew on management assessments regarding the occurrence of certain conditions, for example the achievement of earnings targets. Of the €1.3 million reduction in the contingent consideration compared with the end of the previous year (December 31, 2020: €2.5 million), €0.6 million is attributable to a payment and €0.7 million is due to the remeasurement of the remaining consideration. This decrease of €0.7 million in the contingent consideration was recognized in the income statement for 2021 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	
2021	Financial assets	**Financial liabilities**	Financial assets	**Financial liabilities**
€ million				
Net gains/losses	–0.3	–0.3	8.2	–4.3

	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

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.

No material unrealized gains or losses on financial investments measured at fair value through other comprehensive income were reported in other comprehensive income in 2021 or the prior year. As had also been the case in 2020, no material realized gains or losses were reclassified from other comprehensive income to the income statement in 2021.

Total interest income and interest expense

In 2021, interest income of €0.2 million (2020: €0.7 million) and interest expense of €3.5 million (2020: €2.9 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 €0.2 million of the interest income (2020: €0.7 million).

Hedging

Cash flow hedging As at December 31, 2021, there were currency futures that were classified as hedging instruments. Currency futures are used to hedge the currency risk arising from forecast transactions in foreign currencies.

Unrealized losses of €3.1 million on cash flow hedges were recognized in other comprehensive income in 2021 (2020: gains of €2.2 million), taking into account deferred tax assets of €1.0 million (2020: deferred tax liabilities of €0.7 million). These changes in fair value represent the effective portion of the hedge. In 2021, prior to the inclusion of deferred taxes, gains of €0.6 million (2020: losses of €0.3 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 13 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 2021**	Notional amounts 2020	**Fair value 2021**	Fair value 2020
Currency forwards				
not used as hedges	2.1	1.5	–0.1	0.1
used as cash flow hedges	37.3	31.2	–1.2	1.9

Currency forwards used as cash flow hedges

€ million	**2021**	2020
Carrying amount (other liabilities/ other receivables and assets)	–1.2	1.9
Notional amount	37.3	31.2
Date of maturity	18.1.2022–17.1.2023	16.2.2021–18.2.2022
Hedge ratio	1 : 1	1 : 1
Change in fair value in the reporting period	–1.2	1.9
Change in value of the hedged item used to determine hedge effectiveness	1.2	–1.9
Average hedged rate for 2021	USD 1.1779: EUR 1	USD 1.1605: EUR 1

Netting

As at December 31, 2021, 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 2021 included 32 subsidiaries, one joint venture, and two associates.

Subsidiaries and non-controlling interests

There were no non-controlling interests as at December 31, 2021 (December 31, 2020: €0.2 million).

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, 2021**	**Dec. 31, 2020**
Revenue	179.6	143.9
Depreciation and amortization	–9.9	–5.7
Interest income	1.4	0.7
Interest expense	0.0	0.0
Interest income, net	0.4	0.7
Income taxes	3.2	0.0
Profit (loss) from continuing operations	–3.2	1.8
Net income	**–3.2**	**1.8**
Current assets	129.0	147.8
thereof cash and cash equivalents	89.6	102.5
Non-current assets	68.1	41.4
Current liabilities	63.6	66.5
thereof current financial liabilities	0.0	0.2
Non-current liabilities	43.2	39.8
thereof non-current financial liabilities	0.0	0.0
Net assets	**90.4**	**82.8**
Group's share of net assets at Jan. 1	42.2	32.8
Adjustment of net assets after PPA	0.0	9.9
Share of net income	–1.6	0.9
Dividends received in the financial year	0.0	0.0
Effect of currency translation	5.5	–1.4
Group's share of net assets at Dec. 31	46.1	42.2
Goodwill of DEUTZ AG after PPA	6.0	6.0
Impairment	0.0	0.0
Carrying amount using the equity method at Dec. 31	**52.1**	**48.2**

Non-material associates

A summary of financial information is shown below for the Group's interest in the following two companies, both classified as non-material associates: D. D. Power Holdings (Pty) Ltd., Elandsfontein, South Africa, and DEUTZ Power Solution (Xuzhou) Co., Ltd., Xuzhou, China. The latter is a company that DEUTZ established in 2021 with Beijing Fangda Diesel Engine Technology & Service Co., Ltd., Beijing, China, and SINOCHAIN Environment Protection Co., Ltd., Shanghai, China. DEUTZ holds 40 percent of the shares in this new company. The acquisition cost for the shares was CNY 15.0 million (€2.0 million). The associate D. D. Power Holdings (Pty) Ltd. 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	**2021**	2020
Carrying amount of interests	**4.3**	**2.0**
Group's share of:		
Profit from continuing operations	0.8	0.5
Other comprehensive income	0.0	0.0
Net income	**0.8**	**0.5**

28. CONTINGENT LIABILITIES

Guarantees and similar commitments

The DEUTZ Group's guarantees and similar commitments as at the balance sheet date were as follows:

€ million	**Dec. 31, 2021**	Dec. 31, 2020
Warranty liabilities	0.7	1.9

Warranty liabilities are recognized for repair or replacement obligations in the event of manufacturing defects or other product defects. This covers free reworking or replacements, purchase price reductions, and compensation for non-performance. The obligations are recognized as contingent liabilities because they do not yet meet the requirements for recognizing provisions.

Other financial obligations

The following table shows the notional amounts and due dates of other financial obligations:

€ million	**Dec. 31, 2021**	Dec. 31, 2020
due in less than 1 year	10.2	10.2
due in 1 to 5 years	22.1	20.9
due in more than 5 years	0.0	0.5
Total	**32.3**	**31.6**

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 €38.0 million as at December 31, 2021 (December 31, 2020: €29.5 million) and commitments to purchase inventories amounted to €100.9 million (December 31, 2020: €79.8 million).

In 2021, DEUTZ signed an investment agreement with the shareholders of Blue World Technologies Holding ApS, Aalborg, Denmark, concerning the purchase of 11.91 percent of the company's shares for a total of €7.5 million. The investment is divided into two tranches. The first tranche of €3.8 million has already been paid. Purchase of the second tranche of €3.7 million, and the related payment obligation, is conditional on official approval being granted and is expected in the first half of 2022.

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	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Associates	10.4	7.7	0.0	0.0	1.3	1.0	0.0	0.0
Joint ventures	5.9	0.6	0.0	0.0	2.2	0.6	0.0	0.0
Other investments	0.0	0.0	4.9	4.9	0.0	0.0	3.2	3.0
Total	**16.3**	**8.3**	**4.9**	**4.9**	**3.5**	**1.6**	**3.2**	**3.0**

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

As at December 31, 2021, receivables of €9.2 million due from other investments had been written off in full (December 31, 2020: €9.2 million). As had also been the case in 2020, this resulted in no income or expense in 2021.

Of these receivables, €5.2 million related to loans granted by DEUTZ (December 31, 2020: €5.2 million) on which impairment losses of €5.2 million had been recognized (December 31, 2020: €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	
	2021	2020	**2021**	2020
Short-term remuneration[1]	0.9	1.4	5.3	2.4
Other long-term benefits	0.0	0.0	0.0	–0.3
Share-based remuneration[2]	0.1	0.0	0.2	0.1

[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 the reporting year from the changes in provisions made for distributed virtual share options.

30. EVENTS AFTER THE REPORTING PERIOD

On February 12, 2022, the Supervisory Board of DEUTZ AG decided on the following personnel-related changes in respect of the Board of Management. Dr. Sebastian C. Schulte, previously Chief Financial Officer and Labor Relations Director, has taken over as Chairman of the Board of Management of DEUTZ AG with immediate effect. He will retain his existing responsibilities on an interim basis. The Supervisory Board voted unanimously to remove the previous Chairman, Dr. Frank Hiller, from the Board of Management, and he left the Board of Management with immediate effect.

Furthermore, the outbreak of war between Russia and Ukraine may have a negative impact on our business activities. The current sanctions and any further sanctions imposed in the future, along with their direct impact on the global economy and the flow of goods around the world, may adversely affect our earnings. As a relatively small amount of our revenue is generated in Russia and Ukraine, very few of our suppliers are based there, and little of our freight transits the countries, we currently do not believe that the war has a material impact on the financial position or financial performance of the DEUTZ Group.

No other events occurred after December 31, 2021 that had a material impact on the financial position or financial performance of the DEUTZ Group.

31. SHARE-BASED REMUNERATION PROGRAMS

Between 2007 and 2021, DEUTZ AG launched long-term incentive plans as long-term components of remuneration. Under these long-term incentive plans, virtual stock options or, alternatively, virtual performance shares are issued to reward management for its sustained contribution to the Company's success.

General description of the incentive plans of DEUTZ AG under which virtual performance shares are granted

The following incentive plans are based on the issuance of virtual performance 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 Board of Management of DEUTZ AG may be considered for inclusion. It is at the discretion of the Company to decide how many instruments are granted.

By the balance sheet date, the following long-term incentive plans (LTI) that were still in existence, with the (original) number of performance shares shown, had been granted:

Incentive plan	Date of grant	Number of performance shares
LTI BoM 2017	January 1, 2017	102,926
LTI BoM 2018	January 1, and March 1, 2018	54,530 and 19,789
LTI BoM 2019	January 1, and March 1, 2019	57,698 and 21,009
LTI BoM 2020	January 1, 2020	94,049
LTI BoM 2021	January 1, 2021	323,794
LTI no. XV-A	January 1, 2021	117,867

A total of 673,795 of these performance shares had been granted to current and former members of the DEUTZ AG Board of Management.

Vesting of performance shares

The performance shares give rise to an entitlement to payment of a cash sum based on their virtual performance since allocation. The vesting period before payment of this cash sum is four years, starting from the date on which the virtual performance shares are allocated (performance period). After the four-year performance period has expired, the final number and value of the performance shares are calculated on the basis of the performance targets described below.

Depending on achievement of various performance targets, the beneficiary receives a cash payment after expiry of the performance period, the amount of which is the difference between the average DEUTZ AG share price on the 60 trading days prior to expiry of the performance period and the reference price for DEUTZ AG shares at the time the performance shares were granted. The amount payable according to this calculation is limited as follows:

- LTI BoM 2017 to 2020: The amount payable is limited to 1.5 times the average closing price of DEUTZ AG shares on the Frankfurt Stock Exchange on the 60 trading days prior to the allocation date ('reference price').
- LTI BoM 2021 and LTI no. XV-A: The amount payable is limited to 1.8 times the target amount specified for the individual beneficiary.

No beneficiary receives shares in the Company.

Performance targets for LTI BoM 2017 to 2020

Entitlement to payment under LTI BoM 2017 to 2020 is contingent on achievement of at least one of the following two performance targets:

- The market price of DEUTZ shares must have risen by at least 30 percent compared with the reference price, or
- The market price of DEUTZ shares must have outperformed the MDAX by at least 10 percentage points over a period that begins on the date on which the virtual performance shares are granted and ends upon expiry of the vesting period.

Dividend distributions by DEUTZ AG must be taken into consideration in both of the performance targets described above, i.e. for the purposes of calculating these performance targets, the total gross dividend distribution up to the end of the vesting period must be added to the DEUTZ share price in each case.

In addition to achievement of one of the two aforementioned performance targets, all entitlements to payment require the Board of Management member to themselves invest in the Company. The Board of Management member must hold one DEUTZ share per 20 allocated virtual performance shares. This investment must be held continuously until the end of the vesting period.

Performance targets for LTI BoM 2021 and LTI no. XV-A

During the four-year term, the number of performance shares depends on the achievement of a total shareholder return component (TSR component) and a return on capital employed component (ROCE component) ('performance targets'). 50 percent of the conditionally allocated performance shares are assigned to each of the two performance targets.

The performance shares only have a value at the end of the performance period and therefore only then result in a payment being made

- if the performance of the DEUTZ AG share price plus notionally reinvested gross dividends during the performance period is greater than, or equal to, the 25th percentile ranking of the DAXsubsector All Industrial Machinery peer group (TSR component) and/or
- if the relevant figure for ROCE (EBIT / capital employed) at the end of the final year of the performance period is greater than, or equal to, 7.6 percent (ROCE component).

If target achievement for one or both of these two performance targets is below the aforementioned thresholds, the number of performance shares assigned to the performance target in question is reduced to zero. If one or both of these two performance targets are exceeded, the number of performance shares assigned to the performance target in question is increased up to a maximum of 180 percent of the number of performance shares originally allocated (cap).

General description of the incentive plans of DEUTZ AG under which stock options are granted

The following incentive plans are based on the issuance of virtual options 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 no. XI	September 1, 2017	320,000
LTI no. XII	September 1, 2018	322,501
LTI no. XIII	October 1, 2019	280,000
LTI no. XIV	October 1, 2020	290,000
LTI no. XV-B	October 1, 2021	70,000

Exercise of stock 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. 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. The Company may delay the start of the exercise window for the options or accelerate the exercise and vesting periods.

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.

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 under which virtual stock options are granted:

Incentive plan	Earliest 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 no. XI	September 1, 2021	€6.66
LTI no. XII	September 1, 2022	€7.15
LTI no. XIII	October 1, 2023	€5.80
LTI no. XIV	October 1, 2024	€4.56
LTI no. XV-B	October 1, 2025	€7.45

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. No beneficiary receives shares in the Company.

Fair value of the performance shares and stock options

Because the virtual performance shares and the virtual stock 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 performance shares and the virtual stock options at the grant date and apportioned pro rata over the applicable vesting period.

Depending on the complexity of the plan terms and conditions and the financial/mathematical requirements, fair value is determined using either a Monte Carlo simulation or a Black-Scholes-based option pricing model. The models take account of the aforementioned vesting conditions and exercise prices, the term of the plans, the DEUTZ AG share price, and other factors. The relevant measurement parameters for each incentive plan are shown in the following table:

Incentive plan	Risk-free interest rate	Volatility	Assumed maturity
LTI no. VIII	−0.73%	31%	Aug. 31, 2022
LTI no. IX	−0.70%	35%	May 31, 2023
LTI no. X	−0.64%	43%	Aug. 31, 2024
LTI BoM 2017	0.00%	0%	Jan. 1, 2022
LTI no. XI	−0.57%	42%	Aug. 31, 2025
LTI BoM 2018	−0.73%	34%	Mar. 1, 2022
LTI no. XII	−0.64%	43%	Aug. 31, 2024
LTI BoM 2019	−0.72%	33%	Jan. 1, 2023
LTI no. XIII	−0.57%	42%	Sep. 30, 2025
LTI BoM 2020	−0.71%	34%	Mar. 1, 2023
LTI no. XIV	−0.50%	40%	Oct. 1, 2026
LTI BoM 2021	−0.68%	42%	Jan. 1, 2024
LTI no. XV-A	−0.49%	40%	Dec. 31, 2024
LTI no. XV-B	−0.43%	39%	Oct. 1, 2027

Total expense recognized for share-based remuneration programs in 2021

In accordance with the requirement for the fair value of the performance shares and options to be recalculated on each balance sheet date, a calculation was carried out on the basis of the DEUTZ AG share price of €6.57 on December 31, 2021 (December 31, 2020: €5.10), which resulted in an overall expense of €766 thousand in 2021 (2020: €324 thousand). A total provision of €2,618 thousand was recognized at the end of 2021 (December 31, 2020: €1,852 thousand). The amount is broken down as follows:

Incentive plan	Dec. 31, 2021 € thousand	Dec. 31, 2020 € thousand
LTI no. VIII	0	56
LTI no. IX	49	103
LTI no. X	224	292
LTI BoM 2017	0	525
LTI no. XI	342	36
LTI BoM 2018	31	280
LTI no. XII	234	91
LTI BoM 2019	382	196
LTI no. XIII	252	115
LTI BoM 2020	309	120
LTI no. XIV	187	38
LTI BoM 2021	434	0
LTI no. XV-A	165	0
LTI no. XV-B	9	0
Total	**2,618**	**1,852**

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, 2021	Dec. 31, 2020
LTI no. VIII	1.20	0.00
LTI no. IX	2.17	0.00
LTI no. X	2.63	0.00
LTI no. XI	0.00	0.00
LTI no. XII	0.00	0.00
LTI no. XIII	0.77	0,00
LTI no. XIV	2.01	0.00
LTI no. XV-B	0.00	0.00

32. STAFF COSTS

€ million	**2021**	2020
Wages	139.1	123.4
Salaries	177.7	159.5
Social security contributions	58.0	56.0
Net interest cost for provisions for pensions and other post-retirement benefits	0.6	1.2
Cost of post-employment benefits and other long-term benefits	1.2	2.3
Cost of severance payments/ personnel restructuring	0.1	0.4
Total	**376.7**	**342.8**

The following table shows the breakdown of staff costs by functional area:

€ million	**2021**	2020
Cost of sales	210.4	194.9
Research and development costs	51.2	47.7
Selling expenses	72.3	65.7
Administrative expenses	41.6	31.9
Other operating expenses	1.2	2.6
Total	**376.7**	**342.8**

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)

	2021	2020
Non-salaried employees	2,534	2,567
Salaried employees	2,034	1,997
	4,568	**4,564**
Trainees	91	99
Total	**4,659**	**4,663**

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 2021, 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 in the "Investor Relations/Corporate Governance" section of the Company's website at www.deutz.com.

35. AUDITOR'S FEES

The total fees reported for auditing the consolidated financial statements for 2021 and 2020 are broken down as follows:

€ thousand	**2021**	2020
Auditing	817	717
Other attestation services	70	91
Total	**887**	**808**

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, the audit of DEUTZ AG's annual financial statements, and the services rendered in relation to an enforcement procedure in 2021. 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, Harald Wimmer, has overseen the audit of the single-entity and consolidated annual financial statements of DEUTZ AG since 2021.

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 2021 was €7,072 thousand (2020: €2,586 thousand). This consisted of short-term employee benefits of €5,268 thousand (2020: €2,362 thousand) and share-based long-term benefits as part of the long-term incentive plans amounting to €1,804 thousand (2020: €515 thousand). In the previous year, there had also been long-term benefits of minus €219 thousand. The change in long-term benefits related to adjustments of the provisions recognized in 2020 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 2021 combined management report.

Remuneration for former members of the Board of Management or their surviving dependants amounted to €1,101 thousand (2020: €1,181 thousand) for DEUTZ AG and the Group. Provisions of €10,247 thousand (December 31, 2020: €12,397 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 2021 was €897 thousand (2020: €840 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 2021 combined management report.

Advances and loans to members of the Board of Management and the Supervisory Board

As at December 31, 2021, 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, 2021:

On March 31, 2021, 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 March 29, 2021 and amounted to 5.07 percent (6,130,794 voting rights) on that date. Pursuant to section 34 WpHG, 5.07 percent (6,130,794 voting rights) are attributable to it.

On April 7, 2021, 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 March 31, 2021 and amounted to 4.82 percent (5,819,661 voting rights) on that date. Pursuant to section 34 WpHG, 4.82 percent (5,819,661 voting rights) are attributable to it.

On May 10, 2021, 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 May 4, 2021 and amounted to 5.01 percent (6,054,813 voting rights) on that date. Pursuant to section 34 WpHG, 5.01 percent (6,054,813 voting rights) are attributable to it.

On May 14, 2021, 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 May 11, 2021 and amounted to 4.96 percent (5,995,689 voting rights) on that date. Pursuant to section 34 WpHG, 4.96 percent (5,995,689 voting rights) are attributable to it.

On May 25, 2021, pursuant to section 33 (1) WpHG, Ardan Livvey Investors B.V., Amsterdam, Netherlands, notified us that its voting share in our Company had exceeded the 3 percent threshold on May 19, 2021 and amounted to 3.89 percent (4,700,000 voting rights) on that date. Pursuant to section 34 WpHG, 3.89 percent (4,700,000 voting rights) are attributable to it.

On June 14, 2021, pursuant to section 33 (1) WpHG, AllianceBernstein Corporation, Delaware, United States of America, notified us that its voting share in our Company had exceeded the 3 percent threshold on June 3, 2021 and amounted to 3.72 percent (4,490,319 voting rights) on that date. Pursuant to section 34 WpHG, 3.72 percent (4,490,319 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: AllianceBernstein LP.

On August 6, 2021, 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 August 2, 2021 and amounted to 5.002884989708 percent (6,046,576 voting rights) on that date. Pursuant to section 34 WpHG, 5.002884989708 percent (6,046,576 voting rights) are attributable to it.

On August 11, 2021, 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 August 5, 2021 and amounted to 4.78 percent (5,774,056 voting rights) on that date. Pursuant to section 34 WpHG, 4.78 percent (5,774,056 voting rights) are attributable to it.

On August 12, 2021, 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 August 9, 2021 and amounted to 5.16 percent (6,242,063 voting rights) on that date. Pursuant to section 34 WpHG, 5.16 percent (6,242,063 voting rights) are attributable to it.

On August 13, 2021, 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 August 10, 2021 and amounted to 4.93 percent (5,961,599 voting rights) on that date. Pursuant to section 34 WpHG, 4.93 percent (5,961,599 voting rights) are attributable to it.

On August 17, 2021, 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 August 11, 2021 and amounted to 5.14 percent (6,206,549 voting rights) on that date. Pursuant to section 34 WpHG, 5.14 percent (6,206,549 voting rights) are attributable to it.

On August 18, 2021, 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 August 12, 2021 and amounted to 4.91 percent (5,928,665 voting rights) on that date. Pursuant to section 34 WpHG, 4.91 percent (5,928,665 voting rights) are attributable to it.

On August 19, 2021, 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 August 13, 2021 and amounted to 5.16 percent (6,236,435 voting rights) on that date. Pursuant to section 34 WpHG, 5.16 percent (6,236,435 voting rights) are attributable to it.

On August 20, 2021, 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 August 16, 2021 and amounted to 4.92 percent (5,945,206 voting rights) on that date. Pursuant to section 34 WpHG, 4.92 percent (5,945,206 voting rights) are attributable to it.

On August 23, 2021, 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 August 17, 2021 and amounted to 5.28 percent (6,387,208 voting rights) on that date. Pursuant to section 34 WpHG, 5.28 percent (6,387,208 voting rights) are attributable to it.

On August 31, 2021, pursuant to section 33 (1) WpHG, Montagu Private Equity LLP, London, United Kingdom, 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 September 1, 2021, pursuant to section 33 (1) WpHG, Montagu Private Equity LLP, London, United Kingdom, notified us that its voting share in our Company had fallen below the 3 percent threshold on August 19, 2021 and amounted to 0.0 percent (0 voting rights) on that date. Pursuant to section 34 WpHG, 0.0 percent (0 voting rights) are attributable to it.

On November 22, 2021, pursuant to section 33 (1) WpHG, Ardan Livvey Investors B.V., Amsterdam, Netherlands, notified us that its voting share in our Company had exceeded the 5 percent threshold on November 16, 2021 and amounted to 5.000753629458 percent (6,044,000 voting rights) on that date. Pursuant to section 34 WpHG, 5.000753629458 percent (6,044,000 voting rights) are attributable to it.

On December 15, 2021, 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 December 9, 2021 and amounted to 4.79 percent (5,795,115 voting rights) on that date. Pursuant to section 34 WpHG, 4.79 percent (5,795,115 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 2021, management report, and notes to the financial statements nor publish its annual financial statements.

39. SUPERVISORY BOARD AND BOARD OF MANAGEMENT

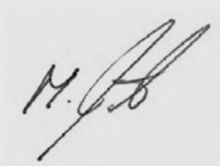
Information on the members of the Supervisory Board and the Board of Management, including non-executive directorships held at other companies, is given in a separate list on pages 200 to 201.

Cologne, February 21, 2022

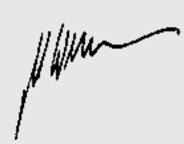
DEUTZ Aktiengesellschaft

The Board of Management

Dr. Sebastian C. Schulte
Chairman



Dr. Ing. Markus Müller



Michael Wellenzohn

SHAREHOLDINGS OF DEUTZ AG

As at December 31, 2021

Ref. no.	Name and registered office of the company	Held via	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
1	DEUTZ AG, Cologne			612,771	39,953
Consolidated companies in Germany					
2	Ad. Strüver KG (GmbH & Co.), Hamburg[1]	4	94.0	8,207	–37
3	DEUTZ Amerika Holding GmbH, Cologne[1, 2]	1	100.0	92,275	0
4	DEUTZ Beteiligung GmbH, Cologne[1]	1	100.0	17	–2
5	Deutz China Verwaltungs GmbH, Cologne[6]	1	100.0	48,350	0
6	DEUTZ Deutschland GmbH, Stockstadt am Rhein[8]	1	100.0	25	0
7	DEUTZ Verwaltungs GmbH, Cologne[1, 2]	1	100.0	16,125	0
8	Deutz-Mülheim Grundstücksgesellschaft mbH, Cologne[1]	7	100.0	44	0
9	Futavis GmbH, Aachen[1, 2]	1	100.0	1,248	–414
10	Torqeedo GmbH, Gilching[1, 2]	1	100.0	21,540	–1,518
11	Unterstützungsgesellschaft mbH der DEUTZ Aktiengesellschaft, Cologne[1]	1	100.0	–1,472	152
Consolidated companies outside Germany					
12	DEUTZ Asia-Pacific (Pte.) Ltd., Singapore (Singapore)[1]	1	100.0	11,580	3,323
13	Deutz Australia (Pty) Ltd., Braeside (Australia)[1]	1	100.0	6,997	823
14	Deutz Austria GmbH, Vienna (Austria)[1]	1	100.0	2,041	1,404
15	DEUTZ (Beijing) Engine Co., Ltd., Beijing (China)[1]	1	100.0	5,293	138
16	Deutz Belgium N.V, Antwerp (Belgium)[1]	17	100.0	4,048	134
17	Deutz Benelux B.V., Rotterdam (Netherlands)[1]	1	100.0	3,601	0
18	Deutz Corporation, Atlanta (USA)[1]	3	100.0	25,572	–1,086
19	DEUTZ CS s.r.o., Modřice (Czech Republic)[1]	1	100.0	840	158
20	DEUTZ DO BRASIL LTDA., São Paulo (Brazil)[1]	1	100.0	1,779	1,008
21	DEUTZ FRANCE SAS, Gennevilliers (France)[1]	1	100.0	12,683	1,884
22	DEUTZ Global Service Center, S.L., Zafra (Spain)[1]	1	100.0	1,097	22
23	DEUTZ Italy S.r.l., Milan (Italy)[1]	1	100.0	11,387	2,714
24	DEUTZ Japan GK, Tokio (Japan)[7]	1	100.0	74	0
25	DEUTZ Netherlands B.V., Dordrecht (Netherlands)[1]	17	100.0	4,063	41
26	DEUTZ Romania S.r.l., Galati (Romania)[1]	23	100.0	853	257
27	DEUTZ (SHANGHAI) INTERNATIONAL TRADE Co., Ltd., Shanghai (China)[1]	1	100.0	9,274	–6,944
28	DEUTZ Spain S.A.U., Zafra (Spain)[1]	1	100.0	41,316	3,215
29	Motor Center Austria GmbH, Wels (Austria)[1]	1	100.0	255	48
30	Nlle Ste MAGIDEUTZ S.A., Casablanca (Morocco)[1]	21	100.0	4,411	585
31	OOO DEUTZ Vostok, Moscow (Russia)[1]	1	100.0	1,885	1,165
32	Torqeedo Inc. Illinois (USA)[1]	10	100.0	1,300	336
33	Torqeedo Asia-Pacific Ltd., Bangkok (Thailand) [1]	10	100.0	–1,256	–262
34	D. D. Power Holdings (Pty) Ltd., Elandsfontein (South Africa)[3, 4]	1	30.0	7,211	2,679
35	DEUTZ Power Solution (Xuzhou) Co., Ltd., Xuzhou, Jiangsu (China)[3, 9]	5	40.0	5,212	0

SHAREHOLDINGS OF DEUTZ AG

As at December 31, 2021

Ref. no.	Name and registered office of the company	Held via	Holding (%)	Equity (€ thousand)	Net income (€ thousand)
36	Hunan DEUTZ Power Co., Ltd., Changsha (China)[3]	5	51.0	75,867	–837
Unconsolidated companies in Germany					
37	DEUTZ Sicherheit Gesellschaft für Industrieservice mbH, Cologne[2]	1	100.0	26	0
38	Feld & Hahn GmbH i. L., Cologne[2]	1	100.0	455	0
Unconsolidated companies outside Germany					
39	AROTRIOS S.A., Nea Filadelfia (Greece)[11]	1	100.0	–	–
40	DEUTZ ENGINEERING druzba za projektiraje, proizvodnjo in trgovino d.o.o., Maribor (Slovenia)	1	100.0	419	82
41	DEUTZ Engines (India) Private Limited, Pune (India)[5]	1	100.0	584	38
42	DEUTZ UK LTD, Cannock (UK)	1	100.0	149	–23
Other equity investments					
43	Blue World Technologies, Aalborg (Denmark)[10]	1	7.7	22,982	–2,662

[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, 2021, measured using exchange rate as at December 31, 2021.
[5] Figures as at March 31, 2021, measured using exchange rate as at December 31, 2021.
[6] Forms a tax group with DEUTZ AG for VAT purposes.
[7] Consolidated for the first time as at October 1, 2021.
[8] Consolidated for the first time as at December 1, 2021.
[9] Addition of the investment on October 1, 2021.
[10] Addition of the equity investment on December 14, 2021.
[11] The company is in liquidation.

SUPERVISORY BOARD

Dr. Dietmar Voggenreiter
Chairman (since February 12, 2022)
Management consultant, Horváth & Partner GmbH, Munich, Germany

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

Dr. Ing Bernd Bohr
Chairman (until February 12, 2022)
Freelance management consultant
a) Ottobock SE & Co. KGaA, Duderstadt, 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

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
Freelance management consultant
a) Bosch Engineering GmbH, Abstatt, Germany (Chairman)
ITK Engineering GmbH, Rülzheim, Germany (Chairman)
b) Weifu High-Technology Group Co. Ltd., Wuxi, Jiangsu Province, China (Vice Chairman) (until April 16, 2021)

Ali Yener[1]
Chief Representative and Managing Director of IG Metall Koblenz, Germany
a) ZF Active Safety GmbH, Koblenz, Germany (Deputy Chairman)

[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. Dietmar Voggenreiter, Chairman (since February 12, 2022)
Corinna Töpfer-Hartung, Deputy Chairwoman
Dr. Ing. Bernd Bohr, Chairman (until February 12, 2022)
Alois Ludwig

Audit Committee
Patricia Geibel-Conrad, Chairwoman
Sabine Beutert, Deputy Chairwoman
Dr. Ing. Bernd Bohr (until February 12, 2022)
Corinna Töpfer-Hartung
Dr. Dietmar Voggenreiter (since February 12, 2022)

Arbitration Committee
(Section 27 (3) German Codetermination Act (MitbestG))
Dr. Dietmar Voggenreiter, Chairman (since February 12, 2022)
Dr. Ing. Bernd Bohr, Chairman (until February 12, 2022)
Sophie Albrecht
Corinna Töpfer-Hartung
Ali Yener

Nominations Committee
Dr. Dietmar Voggenreiter, Chairman (since February 12, 2022)
Dr. Ing. Bernd Bohr, Chairman (until February 12, 2022)
Sophie Albrecht
Alois Ludwig

BOARD OF MANAGEMENT

Dr. Sebastian C. Schulte (43)
(Member of the Board of Management since January 1, 2021)
Chairman (since February 13, 2022)
Finance, human resources, purchasing, and information services (March 1, 2021 – February 12, 2022)
Finance, human resources, and information services (on an interim basis since February 12, 2022)
Technical and head-office functions (excluding production), sustainability (since February 12, 2022)

Dr. Ing. Frank Hiller (55)
(until February 13, 2022)
Chairman
Technical and head-office functions, sustainability
a) STRATEC SE, Birkenfeld, Germany, Deputy Chairman
b) DEUTZ Corporation, Atlanta, USA, Chairman
(until February 14, 2022)

Dr. Ing. Markus Müller (42)
(since March 15, 2021)
Research and development
Production and purchasing (on an interim basis since February 12, 2022)

Dr. Andreas Strecker (60)
(until February 28, 2021)
Finance, human resources, purchasing, and
information services

Michael Wellenzohn (55)
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. 2021**	Dec. 31. 2020
Intangible assets	69.9	76.4
Property, plant and equipment	245.2	255.5
Investments	313.9	314.4
Non-current assets	**629.0**	**646.3**
Inventories	214.9	161.2
Receivables and other assets	212.4	161.3
Cash and cash equivalents	15.4	28.7
Current assets	**442.7**	**351.2**
Prepaid expenses	5.2	2.5
Deferred tax assets	82.5	71.9
Total assets	**1,159.4**	**1,071.9**

Equity and liabilities	**Dec. 31, 2021**	Dec. 31, 2020
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	254.3	265.6
Accumulated income/loss	18.2	–33.1
Equity	**612.8**	**572.8**
Provisions	280.9	275.6
Other liabilities	264.5	222.3
Deferred income	1.2	1.2
Total equity and liabilities	**1,159.4**	**1,071.9**

INCOME STATEMENT OF DEUTZ AG

€ million

	2021	2020
Revenue	1,405.2	1,085.2
Cost of sales	–1,219.3	–997.8
Gross profit	**185.9**	**87.4**
Research and development costs	–76.4	–72.3
Selling expenses	–49.2	–54.3
General and administrative expenses	–35.4	–24.7
Other operating income	32.4	31.6
Other operating expenses	–20.4	–67.3
thereof expenses pursuant to art. 67 (1) and (2) of the Introductory Act to the HGB (EGHGB)	–2.3	–2.3
Net investment income	–0.6	4.6
Interest expenses, net	–4.0	–3.6
Write-downs of investments	0.0	–19.6
Income taxes	8.2	1.1
Profit after income taxes	**40.5**	**–117.1**
Other taxes	–0.5	–0.5
Net income/net losses	**40.0**	**–117.6**
Loss/profit carried forward	–33.1	84.5
Dividend payments to shareholders	0.0	0.0
Withdrawals from other retained earnings	11.3	0.0
Accumulated income/loss	**18.2**	**–33.1**

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 21, 2022

DEUTZ Aktiengesellschaft

The Board of Management

Dr. Sebastian C. Schulte
Chairman

Dr. Ing. Markus Müller

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, Cologne, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2021, 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, – which comprise the content included to comply with the German legal requirements as well as the remuneration report pursuant to § [Article] 162 AktG [Aktiengesetz: German Stock Corporation Act], including the related disclosures, – included in section „Remuneration Report " of the group management report for the financial year from 1 January to 31 December 2021. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB.

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 § 315e Abs. [paragraph] 1 HGB 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 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, 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 the statement on corporate governance referred to above.

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 2021. 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

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 86.5 million (6.7 % 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 2021. 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 reversals of write-downs in the total amount of EUR 4.4 million.

The valuations are highly dependent 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 are therefore, also against the background of the effects of the coronavirus pandemic, 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 assessed, among other things, the method used for performing impairment tests and 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 pandemic 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 54.3 million (4.2 % 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 pandemic 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 coronavirus 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 coronavirus 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".

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB as an unaudited part of the group management report.

The other information comprises further

- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB
- all 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 mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with 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.

The executive directors and the supervisory board are further responsible for the preparation of the remuneration report, including the related disclosures, which is included in a separate section of the group management report and complies with the requirements of § 162 AktG. They are also responsible for such internal control as they determine is necessary to enable the preparation of a remuneration report, including the related disclosures, that is free from material misstatement, whether due to fraud or error.

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 controls.

- 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

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file DEUTZ_KA_LB_20211231.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 work extends only 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 these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion 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 2021 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: 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 renderings of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 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 supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Work 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 work. 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 opinion.

- Obtain an understanding of internal control relevant to the assurance work 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 opinion 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 in force at the date of the consolidated financial statements on the technical specification for this electronic file.

- Evaluate whether the ESEF documents provide an XHTML rendering 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) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 29 April 2021. We were engaged by the supervisory board on 2 December 2021. 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).

REFERENCE TO AN OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Harald Wimmer."

Cologne, 9 March 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Harald Wimmer Wirtschaftsprüfer (German public auditor)	ppa. Clivia Döll Wirtschaftsprüferin (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 2021, 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 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, 2021, 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 this annual report was published, the Company's Board of Management consisted of three people: Dr. Sebastian C. Schulte (Chairman since February 13, 2022, responsible for technical and head office functions, excluding production, and responsible for finance, human resources, and information services on an interim basis; had already been responsible for finance, human resources, purchasing, and information services since March 1, 2021), Dr. Ing. Markus Müller (responsible for research and development since March 15, 2021; responsible for production and purchasing on an interim basis since February 12, 2022), and Mr. Michael Wellenzohn (responsible for sales, service, and marketing).

At the Supervisory Board meeting on March 11, 2021, following preparatory work by the Human Resources Committee and deliberation by the Arbitration Committee, the Supervisory Board appointed Dr. Ing. Markus Müller as a member of the Board of Management for the period from March 15, 2021 to March 14, 2024. 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. The Supervisory Board would like to take this opportunity to thank Dr. Strecker again for the dedication that he showed in his work on the Board of Management and for the impetus that he gave the Company.

At an extraordinary Supervisory Board meeting held on February 12, 2022, the Supervisory Board decided unanimously and for good cause to revoke the appointment of Dr. Ing. Frank Hiller as Chairman of the Board of Management of DEUTZ AG, whose term of office had been extended in February 2021. At the same meeting, the Supervisory Board decided that a women was to be appointed to the Board of Management again. The relevant process has been initiated and the Board of Management will consist of four people again once it is completed.

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.

There were no changes to the composition of the Supervisory Board in 2021. However, after Dr. Ing. Bernd Bohr stepped down as chairman of the Supervisory Board at the extraordinary Supervisory Board meeting on February 12, 2022, the Supervisory Board elected Dr. Dietmar Voggenreiter as its new chairman.

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. The composition of the Supervisory Board and its committees, as well as the further mandates held by its members, are shown separately on pages 200 to 201 of this annual report. In the reporting year, the Supervisory Board once again discussed in detail the results of the efficiency audit (article 5.6 DCGK, version dated February 7, 2017) that had been conducted in the prior year and identified measures for improvement on this basis.

At the time this annual report was published, the members of the Human Resources Committee were Dr. Dietmar Voggenreiter (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 three meetings in 2021, 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 achievement of the Board of Management's targets for 2020, and the setting of Board of Management targets, including medium-term targets, for 2021..

At the time this annual report was published, the members of the Audit Committee were Ms. Patricia Geibel-Conrad (chairwoman), Ms. Sabine Beutert (deputy chairwoman), Ms. Corinna Töpfer-Hartung, and Dr. Dietmar Voggenreiter. The committee's work primarily focused on the preparatory review of the annual and consolidated financial statements, including the combined management report, of the proposal for the appropriation of profit, and of the separate combined non-financial report of DEUTZ AG and the DEUTZ Group. The recommendations prepared for the Supervisory Board for resolutions concerning these matters were adopted in each case. The auditor's report on its review of the condensed consolidated financial statements and the interim management report as of June 30, 2021 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 2021, all of which were attended by all its members, by the Board of Management and, except on one occasion, by the auditor. The chairwoman of the 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 1, 2022, 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 2021. During the meeting, the auditor gave a detailed report on the process and key findings of the audits of the financial statements. 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 and the auditor provided in-depth answers to all further questions. No issues were raised in the audit findings. The committee's preparatory review also encompassed the separate combined non-financial report of DEUTZ AG and the DEUTZ Group. 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. At the meeting of the full Supervisory Board, the chairwoman of the committee reported in detail on the aforementioned reviews and their findings.

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 approved the services rendered. It appointed the auditor selected by the AGM for 2021, set the auditor's fees, and determined the focus of the audit.

The Board of Management reported regularly on the course of business, the relevant key performance indicators, the liquidity and funding situation, and the Group's working capital. There were extensive discussions on the adjustment of the segment reporting to the new growth strategy for carbon-neutral, off-highway drive solutions. The measurement of investments, goodwill, and intangible assets, the structuring and refinement of non-financial reporting, and accounting-related matters were also addressed throughout the year. The committee also focused on the Board of Management's deliberations on the refinement of the financial control of investments, on tax strategy and the tax compliance management system, on IT matters, and on the management accounts requested by the Audit Committee. At various meetings, the committee examined the effectiveness of the internal control system, the adaptation of the risk management system to meet the new requirements under IDW PS 340, the effectiveness and findings of Corporate Audit, the compliance management system, and the reports on pending and potential legal disputes. 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. Reports regarding potential transactions with related parties were provided on at least a quarterly basis; there were no transactions requiring approval or disclosure in the reporting year.

The 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, the German Supply Chain Act, and other new legislation, and to refine the non-financial reporting process. In the reporting year, in order to ensure compliance with the new requirements arising from the Financial Market Integrity Strengthening Act (FISG), the Supervisory Board resolved to change its rules of procedure, the rules of procedure of its Audit Committee, and its profile of skills and expertise and diversity plan.

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

At the time this annual report was published, the members of the Arbitration Committee were Dr. Dietmar Voggenreiter (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 needed to be convened once in 2021 in connection with the appointment of Dr. Ing. Markus Müller as a member of the Board of Management.

At the time this annual report was published, the members of the Nomination Committee were Dr. Dietmar Voggenreiter (chairman), 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 did not meet in 2021. 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 2021 and up to the time that this annual report was published. At the extraordinary Supervisory Board meeting on February 12, 2022, in view of the fact that Dr. Dietmar Voggenreiter was taking over as chairman of the Supervisory Board from Dr. Ing. Bohr, it was also decided that Dr. Voggenreiter would succeed Dr. Ing. Bohr in all his committee roles with immediate effect.

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, Mr. Hans-Peter Finken, Ms. Patricia Geibel-Conrad, Mr. Alois Ludwig, Dr. Ing. Rudolf Maier, Dr. Dietmar Voggenreiter, and Mr. Ali Yener. For further information regarding the composition of the Supervisory Board and its committees, as well as the further mandates held by its members, please refer to p. 200 et seq.

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 7 percent in the top level of senior management below the Board of Management and 15 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 German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors (FührposGleichberG). 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 55 years. The average age of the Board of Management members is 47.

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, and was updated as follows at the meeting in December 9, 2021:

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 C.1 of the German Corporate Governance Code.

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 area of accounting and at least one member of the Supervisory Board and the Audit Committee must have expertise in the area of auditing (financial experts), 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
- The ability to examine the annual financial statements, if necessary with the assistance of the independent auditors
- 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
- The willingness and ability to devote the time and effort required
- The 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

3.1 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.

3.2 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.

3.3 Independence and potential conflicts of interest

More than half of the shareholder representatives on the Supervisory Board should be independent within the meaning of articles C.6 (2) and C.7 of the German Corporate Governance Code. Shareholder representatives on the Supervisory Board must not hold directorships or similar positions or advisory functions for, or have a personal relationship with, major competitors of the DEUTZ Group, and must generally – or at least in the majority – be deemed independent of the Company, the Board of Management and/or a controlling shareholder. 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.

3.4 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.

3.5 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 extent to which the Supervisory Board and its committees in their existing composition are able to carry out their duties effectively.

4. Diversity plan

a) 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.

b) 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.

c) 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 per cent women and at least 30 per cent 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.

d) 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 pursuant to section 289f (2) no. 1a German Commercial Code (HGB)

The remuneration report for the last financial year, the independent auditor's report pursuant to section 162 AktG, the applicable remuneration system pursuant to section 87a (1) and (2) sentence 1 AktG, and the most recent resolution on remuneration pursuant to section 113 (3) AktG can be accessed online at www.deutz.com under Corporate Governance.

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. At the time this annual report was published, the Chairman of the Board of Management, Dr. Sebastian Schulte, was 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 2021, the code of conduct was distributed to all employees of the new affiliated companies in which DEUTZ AG holds a stake of more than 50 percent and was also made available via 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, information security, emissions compliance, health and safety in the workplace, and prevention of corruption. In 2021, a total of 3,208 administrative employees successfully completed all modules of the e-learning program that had been assigned to them. This equates to a completion rate of 99.1 percent.

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. Notices can also be submitted anonymously and 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, energy, and workplace safety 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, and applied a system ensuring health and safety in the workplace in accordance with ISO 45001. 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 December 9, 2021, the Supervisory Board adopted the profile of skills and expertise required for its members together with the objectives regarding its composition in accordance with article C.1 et seq. DCGK as amended on December 16, 2019. See also p. 216 onward.

The Supervisory Board has met the applicable objectives, 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 three 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. For further information on risk management, see also the risk report on p. 78 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, and proactive dialog with all stakeholders ensures trust in a company and its value creation process. It is therefore of utmost importance to DEUTZ to ensure that all stakeholder groups receive the same information simultaneously and in a timely manner. We achieve this objective by using various communication formats and media. DEUTZ AG reports on the performance and development of its business and on significant changes and events four times a year, in its annual report, its half-year report, and its quarterly statements. 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. At the annual analysts' meeting held when the Company's consolidated financial statements are published, and at conference calls on the publication dates of half-year reports and quarterly statements, senior management is available to answer questions from investors and analysts. See also 'DEUTZ in the capital markets', p. 17 onward.

The Annual General Meeting, at which shareholders have the opportunity to exercise their voting rights, 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, quarterly statements, press releases, ad hoc announcements, voting right notifications, analyst recommendations, presentations, the Company's Statutes, and the remuneration systems for the Supervisory Board and Board of Management can all be found at www.deutz.com. In addition, our online financial calendar provides information on upcoming events in the Company's financial year.

Our website content is generally published 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 also issues ad hoc announcements regarding 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).

For further information on the remuneration systems for the Board of Management and Supervisory Board and the remuneration granted to individual board members, see also the remuneration report, p. 56 onward.

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 2021, Dr. Schulte 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 2021 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, for example 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.

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) Fuel gas composed mainly of methane that is compressed to a pressure of approximately 200 to 250 bar for storage. Engines powered by CNG emit far fewer pollutants than equivalent engines run on gasoline or diesel fuels. And because CNG combustion is very quiet, the engine noise is much lower than in diesel-powered applications.

Communication on Progress (CoP) Signatories to the UN Global Compact commit to submitting a report once a year detailing the progress they are making toward implementation of the ten principles of the Global Compact and, if relevant, how they are supporting the sustainable development goals.

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.

Conflict minerals Minerals or similar natural resources that are extracted in a part of the world afflicted by armed conflicts and that are sold in order to fund these conflicts.

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 tax income Income arising from differences between the calculation of profit under tax law and under IAS. These differences in the amount of tax are recognized on the balance sheet as deferred tax assets or liabilities.

Diversity The concept of diversity encompasses the acceptance of and respect for all people, regardless of their social background, ethnicity, gender, sexual orientation, religious beliefs, age, physical and mental capabilities, or how they see the world and live their lives. A tolerant corporate culture that accepts the differences between individual employees can be utilized to boost the success of a company.

Downsizing Reduction of technical dimensions (such as weight and engine capacity) but delivering the same or similar power output.

EBIT Earnings before interest and tax.

EBIT before exceptional items Earnings before interest and tax (EBIT) less significant income generated or expenses incurred that are outside the scope of the Company's ordinary business activities and are unlikely to recur.

EBIT margin before exceptional items Earnings before interest and tax (EBIT) less significant income generated or expenses incurred that are outside the scope of the Company's ordinary business activities and are unlikely to recur, relative to 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 life assessment In engine manufacturing, the term end of life (EOL) describes the transition from full production of a model to its discontinuation or post-production phase. The focus of the assessment is therefore on the end of the product lifecycle.

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 cash flow Key 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.

Forward Individually structured, non-exchange-traded forward transaction.

GC Active CoP CoPs (see CoP) are categorized into a range of differentiation levels based on the depth of their disclosure. To fulfil the criteria of GC Active, a company's CoP must contain the following three elements. 1. Statement by the CEO or equivalent renewing the company's ongoing commitment to the UN Global Compact, 2. Description of actions and policies that are being implemented to meet the ten principles of the UN Global Compact (or are to be implemented in the future) 3. Qualitative and/or quantitative measurement of outcomes illustrating the degree to which indicators have been met.

Gemba walk A Gemba walk can be understood as part of the quality management process. It entails visiting the place where the value is actually created in order to identify areas for improvement. Insights gained on the ground during a Gemba walk take the place of theoretical assumptions and facilitate the process of arriving at a resolution. They can serve as starting points for optimization and reveal the underlying causes of a problem.

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 (DCGK) 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 Transparency standard for reporting on the sustainability efforts of companies from across all sectors. It contains 20 criteria that can be used as a framework for preparing non-financial reports.

Green Deal The Green Deal sets out the EU's objective of cutting net greenhouse gas emissions to zero by 2050, thus making Europe the world's first climate-neutral continent. Its initiatives cover the areas of finance, energy, transport, commerce, industry, agriculture and forestry.

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.

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.

IO-Link Communications networking standard that facilitates seamless interaction between devices made by different manufacturers.

Lean management Approach based on the philosophy of continuous improvement. The objective of lean management is to optimize all parts of the value stream by eliminating waste and enhancing efficiency.

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.

LoRaWAN (Long Range Wide Area Network) Secure, inexpensive, and energy-efficient wireless technology for long-distance data transmission. It is particularly useful in remote and hard-to-access locations.

LPG (liquefied petroleum gas) Mixture of gases that can be liquefied at room temperature under a relatively low pressure of between 5 and 15 bar. The main components of LPG (also known as autogas) are propane and butane. Autogas burns very cleanly. No soot is produced by burning LPG and its nitrogen oxide emissions are lower than for diesel despite the less complicated exhaust aftertreatment system.

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 implementation of 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.

NOx (nitrogen oxide) Nitrogen oxide is a generic term for numerous gaseous compounds of nitrogen and oxygen, with nitric oxide (NO) and nitrogen dioxide (NO2) grouped together as NOx. They are unwanted byproducts of the burning of fuel, for example in internal combustion engines and in coal, oil, gas, wood and waste furnaces.

OEM (original equipment manufacturer) Manufacturer from which another company purchases components for its own production operations and then sells them on under its own brand name or markets them without any branding.

Off-highway Segment comprising 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 Agreement adopted on December 12, 2015 that was signed by 195 parties at the UN climate change conference in Paris. It sets out a global framework for avoiding climate change catastrophe by keeping the rise in global temperatures to well below 2°C and ideally limiting the increase to 1.5°C.

Product carbon footprint The product carbon footprint (PCF), also known as the cradle-to-grave analysis, is a method for calculating greenhouse gas emissions. It looks at all phases of the product lifecycle, from the extraction of the raw materials and the usage phase to the disposal of the product.

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.

Supply chain management The coordination and optimization of value chains and supply chains. It encompasses various procurement and manufacturing departments as well as distribution to customers.

Sustainable development goals The 17 sustainable development goals are policy objectives set by the UN that are intended to foster sustainable development at economic, societal and environmental level and on a global basis. They entered into force on January 1, 2016 and have a term of 15 years (up to 2030).

Sustainable Finance Action Plan Adopted in 2018 by the European Commission, the Sustainable Finance Action Plan aims to put ESG (Environment, Social & Governance) criteria at the heart of Europe's financial system and in doing so increase the flow of money into sustainable initiatives throughout the European Union.

Synthetic fuels See e-fuels.

Telematics Networking of various IT systems that enables information from different sources to be linked.

UN Global Compact (UNGC) A global pact for sustainable and responsible corporate governance. The signatories (businesses, non-governmental organizations, and other non-business entities) commit to embedding ten universally accepted principles into their strategy and contributing to the implementation of the sustainable development goals (see also UNGC principles).

UNGC principles At the heart of the UN Global Compact are ten principles covering human rights, labor, the environment, and anti-corruption.

Waiver (request) Request made to a business partner to waive a particular provision or condition despite this provision or condition being contractually agreed.

Women's Empowerment Principles (WEP) Joint initiative of UN Women and UN Global Compact that provides a framework for the empowerment of women in business. The seven principles offer guidance to companies on how to promote gender equality in the workplace and in society.

Working capital Financial metric comprising inventories plus trade receivables less trade payables.

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).

Zero emissions Achieving a position whereby the greenhouse gas emissions that are produced by activities within a particular value stream have no net impact on the climate.

DEUTZ GROUP: MULTI-YEAR OVERVIEW

	Continuing operations 2017	Continuing operations 2018	Continuing operations 2019	Continuing operations 2020	**Continuing operations 2021**
New orders	1,556.5	1,952.6	1,654.3	1,322.5	2,012.6
Unit sales (units)	161,646	214,776	211,667	150,928	201,283
DEUTZ Compact Engines	151,671	195,259	164,677	102,054	143,622
DEUTZ Customized Solutions	8,740	9,259	26,048	18,980	17,260
Other	1,235	10,258	20,942	29,894	40,401
Revenue	1,479.1	1,778.8	1,840.8	1,295.6	1,617.3
DEUTZ Compact Engines	1,227.5	1,484.0	1,446.4	943.8	1,243.4
DEUTZ Customized Solutions	247.9	271.2	362.5	310.1	320.2
Other	3.7	26.8	35.5	44.4	56.7
Consolidation	–	–3.2	–3.6	–2.7	–3.0
EBITDA	237.3	161.4	175.5	–0.2	123.1
EBITDA (before exceptional items)	133.2	161.4	166.2	31.7	126.2
EBIT	143.8	82.0	88.1	–106.6	34.1
EBIT (before exceptional items)	39.7	82.0	78.8	–74.7	37.2
EBIT margin (%)	9.7	4.6	4.8	–8.2	2.1
EBIT margin (before exceptional items, %)	2.7	4.6	4.3	–5.8	2.3
Net income	118.5	69.9	52.3	–107.6	38.2
Net income (before exceptional items)	33.0	69.9	44.2	–75.7	41.3
Earnings per share (€)	0.98	0.58	0.43	–0.89	0.32
Earnings per share (before exceptional items, €)	0.27	0.58	0.37	–0.63	0.34
Dividend per share (€)	0.15	0.15	0.15	–	–
Total assets	1,198.2	1,249.3	1,301.2	1,180.5	1,290.1
Non-current assets	519.3	506.2	619.5	613.6	608.2
Equity	584.3	619.1	652.4	535.2	588.4
Equity ratio (%)	48.8	49.6	50.1	45.3	45.6
Cash flow from operating activities	112.7	97.5	115.6	44.9	93.3
Free cash flow	82.5	14.5	–36.6	–35.8	21.6
Net financial position[1]	98.2	93.7	–15.2	–83.8	–79.7
Working capital[2]	222.2	276.2	293.2	235.0	253.2
Working capital ratio (average, %)[3]	13.4	15.8	17.4	21.8	15.5
Capital expenditure (after deducting grants)[4]	54.7	59.1	86.5	91.7	65.7
Depreciation and amortization	93.5	79.4	87.4	106.4	89.0
Research and development (after deducting grants)	67.0	85.0	95.8	81.4	82.3
thereof capitalized	17.5	21.0	21.7	12.6	6.8
Employees (Dec. 31)[5]	4,154	4,631	4,906	4,586	4,751

[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 2017	Continuing operations 2018	Continuing operations 2019	Continuing operations 2020	**Continuing operations 2021**
Revenue by region € million	**1,479.1**	**1,778.8**	**1,840.8**	**1,295.6**	**1,617.3**
Europe/Middle East/Africa	1,063.5	1,139.7[1]	1,141.9	829.2	1,030.6
Americas	268.1	365.3[1]	404.3	222.5	294.6
Asia-Pacific	147.5	273.8[1]	294.6	243.9	292.1
Revenue by application segment € million	**1,479.1**	**1,778.8**	**1,840.8**	**1,295.6**	**1,617.3**
Construction Equipment	437.4	545.5	535.5	378.5	490.7
Material Handling	265.6	373.1	398.9	172.5	284.1
Stationary Equipment	152.0	166.3	155.8	114.3	120.3
Agricultural Machinery	230.5	261.1	293.3	178.7	206.1
Service	309.2	329.9	352.4	348.3	403.1
Miscellaneous[2]	84.4	102.9	104.9	103.3	113.0
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, €)	7.58	5.15	5.57	5.10	6.57
Share price high (€)	7.78	8.68	8.84	5.77	8.29
Share price low (€)	5.31	5.02	4.86	2.74	5.10
Market capitalization (€ million)	916.1	622.4	673.2	616.4	794.1
Earnings per share (€)	0.98	0.58	0.43	−0.89	0.32
thereof from continuing operations	0.98	0.58	0.43	−0.89	0.32
thereof from discontinued operations	0.00	0.00	0.00	0.00	0.00
Earnings per share (before exceptional items, €)	0.27	0.58	0.37	−0.63	0.34

[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

2022	
April 28	Annual General Meeting (virtual)
May 5	Quarterly statement for the first quarter of 2022 Conference call with analysts and investors
August 11	Interim report for the first half of 2022 Conference call with analysts and investors
November 10	Quarterly statement for the first to third quarter of 2022 Conference call with analysts and investors
2023	
March 16	2022 annual report Annual results press conference with analysts and investors
April 27	Annual General Meeting

« FURTHER INFORMATION AT
www.deutz.com/en/investor-relations/financial-calendar

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