INDEX FOR MANAGEMENT REPORT

Fundamental features of the Group

DEUTZ AG is constantly analyzing its portfolio and focusing on its high-growth core businesses. For this reason, the company signed an agreement in January 2024 to sell its subsidiary Torqeedo, which specializes in electric boat drives. The transaction is expected to be completed toward the end of the first quarter of 2024. In accordance with IFRS 5, the activities of the Torqeedo Group are therefore presented as discontinued operations. Unless otherwise stated, the figures for the Group and the DEUTZ Classic and DEUTZ Green segments are presented below exclusively for continuing operations. To ensure comparability of the figures, the prior-year figures for 2022 have also been adjusted accordingly. Only the figures for the entire Group include the Torqeedo Group, which was still part of the Company in 2023.

Business modell 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 5,100 people worldwide at the end of 2023. 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 electric and hydrogen drives. DEUTZ drives are used in applications including construction equipment, agricultural machinery, material handling equipment such as forklift trucks and lifting platforms, commercial vehicles, and rail vehicles. DEUTZ also offers a comprehensive range of digital and analog services through around 1,000 sales and service partners in over 120 countries.

The Company's continuing operations are divided into the segments Classic and Green. See also Strategy and objectives, p. 37 onward. The Classic segment, which generated around 99.6 percent of consolidated revenue from continuing operations in 2023, encompasses all activities related to the development, production, distribution, and servicing of diesel and gas engines, the equity-accounted joint venture with Chinese construction equipment manufacturer SANY, and other joint ventures. The Green segment consists of all activities related to new and alternative drive solutions. This includes hydrogen drives, electric drives, mobile rapid charging stations, the related service business, and the subsidiary Futavis, which specializes in battery management systems.

Market and competitive environment

Sales of engines based on efficient diesel technology, which is currently the core business of the DEUTZ Group, are focused on the Europe, North America, and Asia regions. The Group faces competition from rival engine suppliers, mainly in Italy, the UK, Japan, and the USA.

DEUTZ's main competitors by application segment[26,27]

Application segments	Applications	Main competitors[28]
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 Kubota, Japan 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
Other	Rolling stock Special vehicles Marine engines	Ford, USA General Motors, USA Kubota, Japan Yanmar, Japan

In February 2023, the European Parliament resolved that, from 2035 onward, newly registered passenger cars and light commercial vehicles up to 3.5 tonnes will no longer be allowed to emit any greenhouse gases. This effectively prohibits the use of gasoline and diesel engines in these vehicles. The EU decision in February 2024 also set stricter fleet limits for heavy commercial vehicles, with the aim of reducing CO_2 emissions from trucks and coaches in the EU by 90 percent by 2040 compared to 2019. It should be possible to count eFuels towards this, but a binding regulation is still pending. These CO_2 limit targets do not currently apply to off-highway applications, but experience has shown that legislators will also tighten the regulations for **off-highway** applications after a few years. DEUTZ is therefore developing engines that run on alternative fuels as well as electric drives in order to be able to offer customers more climate-friendly solutions in the future. It can also be assumed that DEUTZ's supplier base will change in the future as a result of the decision, as fewer suppliers are likely to be active in the engine parts sector.

[26] Power Systems Research, January 2023, power output from 15 to 620 kW.
[27] With the exception of Weichai, Chinese competitors are not listed here due to the lack of comparable quality standards and the significantly lower cost structures.
[28] In alphabetical order.

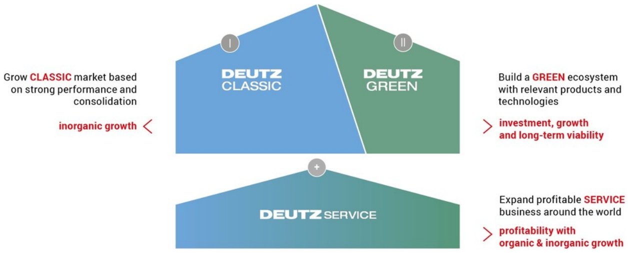
Strategy and objectives

Main objective for 2030: top three independent drive manufacturers The main objective remains to establish DEUTZ among the top three independent drive manufacturers by 2030 and to offer a fully climate-neutral product and technology portfolio by no later than 2050. This includes both electric drives and combustion engines that can be operated on a climate-neutral basis using alternative fuels. The Company has defined its targets for expected profitable growth up to 2025: Revenue is to rise to more than €2.5 billion and the EBIT margin before exceptional items to between 6 percent and 7 percent. These targets are derived from the Dual+ growth strategy presented in January 2023. See also Outlook for 2025, p. 87.

DEUTZ is unequivocally committed to its responsibilities in the environmental, social, and corporate governance spheres. Accordingly, the growth strategy for achieving these targets goes hand in hand with the implementation of the Group's sustainability strategy, Taking Responsibility. With this in mind, DEUTZ has defined a range of sustainability-related targets that cover emissions reductions, respect for human rights, diversity, and sustainability in the supply chain. See also the non-financial report, p, 110 onward.

Dual+ strategy for sustainable, profitable growth The Dual+ strategy is driven by the global challenges of the transition to more sustainable drive systems and covers the Company's evolution from engine manufacturer to provider of drive solutions. A first example of this is the DEUTZ PowerTree, a mobile charging station for construction sites that can be used to charge electrical machines in places without a power connection. Three key strategic pillars have been defined in order to achieve this and the aforementioned growth targets: continued growth of the DEUTZ Classic business involving internal combustion engines, the creation of a zero-emission product ecosystem under the name DEUTZ Green, and the further expansion of the service business.

Our Dual+ strategy



The transformation of the product portfolio needed to deliver the Dual+ strategy will proceed as part of the Powering Progress program with a range of sub-initiatives and sub-targets. These are to be achieved or implemented either in the short term (by 2025), in the medium term (by 2030), or in the long term (2030 and beyond).

DEUTZ Classic | Ongoing development of internal combustion engines The continued growth of the DEUTZ Classic business aims for active market consolidation, expansion, and improved performance. To this end, DEUTZ defined a catalog of measures focusing on its customers' changing requirements and preferences in order to remain a force in the global competitive arena and generate future growth potential.

DEUTZ believes internal combustion engines will continue to play an important role in the **off-highway** segment over the next 20 years, in spite of the transition to more sustainable drive systems. The DEUTZ Classic business will therefore continue to underpin the Group's growth over the coming years, with engine production in this segment set to permanently increase from 186,427 at the end of 2023 to over 200,000 units a year. This is to be achieved through expected market growth and additional contracts and by taking an active role in the anticipated consol-idation of the market. The product mix is set to be enhanced by adding products with higher margins and optimizing the global manufacturing network, with the aim of increasing the profitability of the Classic business over a sustained period. The necessary measures will be backed up by a market-oriented pricing policy, while site efficiency will be improved through increased automation and digitalization of all processes. See also Purchasing and procurement, p. 47 and Production and logistics, p. 44 onward.

Active consolidation of the engine market As the transition to more sustainable drive systems goes hand in hand with the consolidation of the engine market, new opportunities for organic growth and, in particular, growth through acquisitions and partnerships will open up in the Classic segment. DEUTZ aims to play an active role in this consolidation, an ambition evident in two transactions in 2023. At the end of January 2023, the Company announced a partnership with Daimler Truck AG to develop and market medium- and heavy-duty engines (MDEG and HDEP platforms). Building on this, DEUTZ is already looking to expand its product portfolio for construction equipment and agricultural machinery customers and for other commercial vehicle **OEMs**. The agreement

In a further strategic transaction, the Company announced at the end of 2023, that it expects to take over sales and services for selected **off-highway** engines manufactured by Rolls-Royce Power Systems. Most of these models are based on the Daimler Truck engine platforms mentioned above. Production of the Daimler Truck engine variants to be sold by DEUTZ under the first transaction was set to begin in 2028 but is now scheduled for mid-2024 following the completion of the second transaction. This gives DEUTZ access to these engine platforms four years earlier than envisaged in the transaction with Daimler Truck AG and enables it to offer existing and potential customers a much better concept for the transition. Customers will have planning certainty and DEUTZ will gain earlier market access. DEUTZ expects to generate additional annual revenue of around €300 million once the agreement is concluded (probably in mid-2024), with an EBIT margin before exceptional items above the margin of 5.3 percent to 5.8 percent forecast for the Group as a whole for 2023.[29] Around 90 percent of this revenue will contribute to growth in the Classic segment, while the remainder will be used to expand the Service segment (see below).[30] See also Events after the reporting period, p. ##.

DEUTZ Green | Creation of a zero-emission product ecosystem Given the need to make the DEUTZ product portfolio climate-neutral, the Company is taking an open approach to new technologies in the Green segment that includes several technological options, or a combination thereof. This means improving the carbon footprint of the internal combustion engine, for example through the use of hydrogen, **HVO**[31], or synthetic fuels, and developing alternative drive systems such as electric drives. In 2022, DEUTZ announced that it would be investing around €100 million in developing the Green segment's portfolio by 2025, of which more than a third was spent in 2023. DEUTZ is continuously analyzing its portfolio in the Green segment and focusing on fast-growing core business. In January 2024, the Company therefore announced the sale of its subsidiary Torqeedo, which specializes in electric boat drives. The transaction is expected to be completed toward the end of the first quarter of 2024. Following the announcement of the sale of Torqeedo, DEUTZ canceled the target set for the Green segment of increasing the business's share of revenue to between 5 percent and 10 percent by 2025, as Torqeedo had generated the majority (around 89 percent) of the segment's revenue. New medium-term targets are to be set over the course of 2024 as part of the realignment of the Green segment, which will have its own development activities, product management function, and sales organization as well as a dedicated CEO.

First volume order for hydrogen engines One focus was and is the development of hydrogen engines, an area where DEUTZ aims to become a pioneer of green drives. Several pilot projects are already under way, for example in stationary power generation, in rail transportation, in transportation logistics, and in off-highway applications. In November 2023, the Company received its first volume order from China for 100 hydrogen **gensets**. In addition to hydrogen engines, the use of **eFuels** is another key ingredient of the drive-system mix that is helping to create green off-highway applications. See also Research and development, p. 42 onward.

DEUTZ has also made further progress with its E-DEUTZ electrification strategy, under which it aims to build a scalable product offering of all-electric drive systems for specific customer requirements. In this context, DEUTZ presents itself as both systems engineering partner and systems integrator, supplying a harmonized system consisting of an electric motor, battery, power electronics, and reduction gear for traction, along with control software for battery management, functional safety, and actuator logic. DEUTZ has enjoyed its first sales success in this area too. Three prototype sweepers with second-generation batteries – a joint development with DEUTZ – will be delivered to Kärcher in early 2024. See also Research and development, p. 42 onward.

DEUTZ is also looking into expanding the product portfolio and its value chains to incorporate new business models beyond drive systems, such as charging electric machinery or refueling hydrogen engines. Examples include the DEUTZ PowerTree mobile rapid charging station, the subsidiary Futavis, which provides battery management services, and the strategic partnership with Talpa Solutions, which is developing a telemetry solution for off-highway applications to optimize service intervals. See also Research and development, p. 42 onward.

[29] See Q3 press release dated November 9, 2023 and press release regarding Rolls-Royce Power Systems dated December 13, 2023.
[30] The transactions are not expected to be finalized until after an agreement has been finalized and completed, subject to the granting of the usual regulatory approvals from mid-2024.
[31] Hydrotreated vegetable oils.

DEUTZ Service | A global profitable growth driver In addition to capitalizing on the potential of the Classic and Green segments, the expansion of the service and aftermarket business is the third key element of the Dual+ growth strategy. The goal is to increase the revenue of this business from €450 million in 2022 and €484 million in 2023 to around €600 million by the end of 2025, while maintaining a high level of profitability that is significantly above the Group average. To achieve this, DEUTZ is focusing on expanding its global service network, including through acquisitions and strategic partner-ships, increasing its portfolio of services by adding mainly digital concepts, and extending its service activities to include the maintenance of non-DEUTZ engines.

In 2023, DEUTZ further strengthened its offering with two acquisitions in the service business. The acquisition of Diesel Motor Nordic Group in October boosts the Company's regional presence in Scandinavia, while the addition in July of engine dealer Mauricio Hochschild Ingeniería y Servicios S.A. (MHIS), which is active in Chile and Peru, expands the DEUTZ service business in South America.

Focus areas and next steps in our transformation

SHORT-TERM until 2025	MID-TERM: 2026-2030	2030+++
Ahead of schedule in reaching mid-term targets & tripling profitability vs FY 2021	Starting to ensure Green ramp-up & becoming top 3 independent engine producer	Full impact of Dual+ strategy

Main sites and basis of consolidation

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

In July, DEUTZ also acquired the Chilean engine dealer Mauricio Hochschild Ingeniería y Servicios S.A. (MHIS), whose activities in Chile and Peru will help to further expand DEUTZ's service business in South America. Consequently, the new subsidiary was included in the consolidated financial statements of DEUTZ AG for the first time as at July 31, 2023.

The same applies to the Diesel Motor Nordic Group, headquartered in Järfälla, Sweden, the acquisition of which was completed at the end of September and which was included in the consolidated financial statements for the first time as of October 2, 2023. The group comprises three companies: Diesel Motor Nordic AB, Järfälla (Sweden), Diesel Motor Nordic Oy, Helsinki (Finland), and Diesel Motor Nordic AS, Risskov (Denmark). The acquisitions will help the DEUTZ Group to strengthen its regional presence in Scandinavia and expand its service business to include competitors' engines.

In addition to DEUTZ AG, nine German companies (December 31, 2022: ten) and 32 foreign companies (December 31, 2022: 28) were included in the consolidated financial statements as at December 31, 2023. A complete list of DEUTZ AG's shareholdings as at December 31, 2023 can be found in the annex to the notes to the consolidated financial statements. See Shareholdings of DEUTZ AG, p. 233 onward.

The companies in the Torqeedo Group, which had previously been fully consolidated, were accounted for and recognized as a discontinued operation pursuant to IFRS 5 »Non-current Assets Held for Sale and Discontinued Operations« as at December 31, 2023. The Torqeedo Group companies are Torqeedo GmbH, Oberpfaffenhofen/Wessling, Torqeedo Inc., Illinois (USA), and Torqeedo Asia-Pacific Ltd., Bangkok (Thailand).

Internal control system

The DEUTZ Group defines its budget targets and medium-term corporate targets using selected key performance indicators (KPIs). The Group is managed on the basis of the following key financial performance indicators in order to increase profitability and achieve sustained growth. 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.

As described previously, the activities of the Torqeedo Group are accounted for in the consolidated financial statements as a discontinued operation. For 2023, from an internal control perspective, the calculation of the key performance indicators used to manage the DEUTZ Group still included the contributions of the Torqeedo Group. For the purposes of comparison, the key performance indicators for 2023 are also shown on the basis of continuing operations:

Key performance indicators[32]		2023[33]	2023[34]	2022[35]
Revenue growth	%	9.0	7.8	20.8
EBIT margin (before exceptional items)	%	7.0	5.7	4.6
Working capital ratio (average)	%	17.7	18.7	16.7
ROCE (before exceptional items)	%	14.4	11.1	9.0
R&D ratio	%	4.7	4.9	4.6
Free cash flow	€ million	41.8	24.8	-16.6

Revenue growth DEUTZ strives to steadily increase its revenue as the basis for the profitable growth of the Company. Revenue data is collated 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 DEUTZ uses 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. Exceptional items are defined as significant income generated or expenses incurred that, due to their timing and/or specific nature, are unlikely to recur and are outside the scope of the Company's ordinary business activities. Adjusting for exceptional items helps to provide a better comparison of the Company's operating performance over time. Examples of exceptional items include impairment losses, reversals of impairment losses, gains and losses on the disposal of non-current assets, certain costs for strategic projects or organizational changes, restructuring costs, and income from the reversal of related provisions. The adjusted EBIT margin is, like revenue growth, calculated monthly and presented to senior management as part of internal reporting. Exceptional items amounted to an expense of €20.1 million in 2023. An explanation is provided in the section on earnings. See Earnings, p. 53 onward.

Working capital ratio (average) The Company's tied-up capital is managed 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[36] (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

€ million	2023[33]	2023[34]	2022[35]
Total assets	1,514.5	1,590.2	1,475.4
Cash and cash equivalents	90.1	90.1	54.9
Trade payables	256.0	258.5	291.5
Other current and non-current liabilities	110.2	111.4	81.9
Capital employed	**1,058.2**	**1,130.2**	**1,047.1**
Capital employed (average for the year)	**999.2**	**1,088.7**	**988.4**
Adjusted EBIT (EBIT before exceptional items)	**143.6**	**120.4**	**89.4**
ROCE (before exceptional items,%)	**14.4**	**11.1**	**9.0**

R&D ratio As a technology-focused company, DEUTZ considers the R&D ratio to be one of its most significant performance indicators in the 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.

[32] Alternative performance measures.
[33] Key performance indicators based on continuing operations.
[34] Key performance indicators based on the total Group including discontinued operations (internal control perspective).
[35] Key performance indicators based on the total Group including discontinued operations (internal control perspective).
[36] Return on capital employed.

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. This indicator shows 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, it operates a robust system of causal analysis to ensure that it minimizes risks and makes the most of opportunities. Three times a year, an annual forecast is produced for all key performance indicators to ensure transparency with regard to the Company's business performance.

In addition to the key financial performance indicators that form part of the management system described above, DEUTZ also employs other metrics to measure its economic performance. These include, but are not limited to, new orders received, revenue and unit sales, 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 DEUTZ 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, 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.

Working capital targets are specified for the individual group companies in order to optimize the amount of capital tied up in the business. Specific targets for inventories, trade receivables, and trade payables are allocated to the individual employees with responsibility for the respective areas.

In order to secure the financial basis for its growth strategy, the Company has made the management of capital expenditure a central element in the management of tied-up capital, whereby 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, standard investment appraisal methods are used, such as the internal rate of return, the amortization period, the net present value, the impact on earnings, and cost comparisons. A project with an appropriate budget is only approved if there is a clear positive outcome from this investment appraisal.

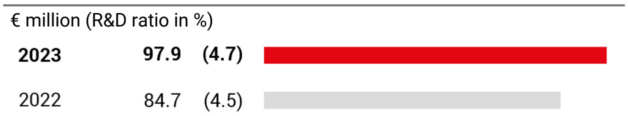
In addition to key financial performance indicators relevant to internal control, DEUTZ is also guided by Group sustainability-related targets, which are reported on in detail in the separate non-financial report. See also the separate combined non-financial report, p. 110 onward.

Research and development

Research and development (R&D) is key to DEUTZ's ability to transform its product portfolio and deliver the Dual+ strategy over the coming years. Fulfilling the statutory requirements created by international emissions legislation plays a major part in shaping the capital expenditure in this area. Another material influence is the steady march of climate change together with the related debate about reducing harmful greenhouse gases. In contrast to the situation with cars and commercial vehicles, there are currently no statutory requirements or thresholds aimed at further reducing the CO_2 emissions of mobile machinery despite the intense debate that has been taking place in Europe, North America, and Japan in 2023 and previously. DEUTZ is monitoring these developments very closely and focusing its R&D spending and projects on ensuring that its product portfolio meets the expected threshold values ahead of time. DEUTZ is actively pursuing the development of carbon-neutral drive systems in the off-highway segment and aims to offer a climate-neutral product and technology portfolio by no later than 2050. To this end, intensive work is being carried out both on electric drive systems and on the further development of combustion engines with alternative, climate-neutral fuels.

R&D spending Expenditure on research and development in 2023 amounted to €106.5 million, compared with €93.4 million in the prior year. After the deduction of grants received from development partners and subsidies, expenditure rose from €84.7 million in 2022 to €97.9 million. Capitalized development expenditure after deducting grants accounted for €2.6 million (2022: €5.3 million). The R&D ratio after deducting grants changed from 4.5 percent in the prior year to 4.7 percent in 2023.

Research and development expenditure (after deducting grants)



R&D spending after deducting grants came to €66.5 million (2022: €59.1 million) in the DEUTZ Classic segment and €31.4 million (2022: €25.6 million) in the DEUTZ Green segment. This included spending on the further development of the sub-4 liter engine segment in the former, while spending in the latter was mainly accounted for by the development of the 360-volt system and the hydrogen engine.

Open to new technologies Different applications with varying power requirements call for alternative drive solutions. Construction equipment and agricultural machinery, for example, need a great deal more power and energy than forklift trucks or lifting platforms. This is why DEUTZ is taking an open-minded approach to technology as it continues to develop its drive portfolio, essentially pursuing a two-pronged technology route toward carbon-neutral off-highway drive solutions. The Company firmly believes that internal combustion engines will continue to play a dominant role in certain mobile machinery applications in the years ahead, helping to facilitate a smooth transition to more sustainable drive systems. As regards these applications, DEUTZ's R&D activities are directed toward developing more environmentally friendly internal combustion engines that can be run on alternative or sustainable fuels such as HVO, hydrogen, or eFuels. The other part of the Company's two-pronged approach is to employ electric technology more widely.

Hydrogen drive solutions To facilitate the transformation of its portfolio, DEUTZ continued to push ahead in 2023 with the development of internal combustion engines that use sustainable energy sources and can therefore be run on a carbon-neutral basis. 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.

The first volume order from China for more than 100 H2 gensets was a particular highlight, and testimony to the success of DEUTZ's extensive research into, and development of, hydrogen-powered drive solutions. The generators will initially be powered by gray hydrogen, which is a by-product of industrial processes. This can reduce carbon emissions per generator by up to 800 tonnes per year compared with conventional electricity generation. The installation of these generators represents a first step toward the creation of the necessary hydrogen technology infrastructure, which can be switched to climate-neutral green hydrogen at a later point in time. The unit used in these generators, the DEUTZ TCG 7.8 H2, is the Company's first hydrogen engine. It provided the basis for many other applications developed by DEUTZ in collaboration with customers in 2023. This includes the pilot project initiated together with the University of Rostock to develop a zero-carbon drive train for mobile machinery. DEUTZ is also collaborating with several railway technology providers on the development of a production-ready hydrogen engine for railway applications. Progress has also been made on the HyCET (Hydrogen Combustion Engine Trucks) research project. HyCET aims to demonstrate the sustainability potential of trucks with hydrogen combustion engines in transportation logistics. As part of the multi-partner project led by the BMW Group, two 18-tonne trucks will be developed and fitted with DEUTZ TCG 7.8 H2 hydrogen engines. The four-year research project has a total investment volume of €19.5 million, of which €11.3 million will be funded by the German Federal Ministry for Digital and Transport (BMDV).

The hydrogen engine, which meets current emissions standards for zero-emission heavy commercial vehicles, remains scheduled to go into production at the end of 2024.

Another pilot project is scheduled to start this year at the DEUTZ site in Zafra, Spain, which entails the development of a proprietary ecosystem for the supply of hydrogen and its conversion back into electricity, with the aim of offering it to customers in the years ahead. Electricity produced by the existing photovoltaic system is converted into hydrogen using an electrolyzer. If and when required, the hydrogen can then be converted back into electricity using an emergency generator powered by a DEUTZ hydrogen combustion engine.

Electric drive solutions 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 rapid charging solutions for specific customer requirements in **off-highway** applications.

Over the coming years, the multi-site E-DEUTZ development team will focus on commercializing basic drive systems for customer applications with low to medium power requirements. In this context, DEUTZ will increasingly present itself as a one-stop systems engineering partner and systems integrator, capable of providing an integrated system consisting of an electric motor, battery, power electronics, and reduction gear for traction, along with control software for battery management, functional safety, and actuator logic. In 2024, for example, several prototypes of our improved E-DEUTZ high-voltage batteries are scheduled for delivery to our customer Kärcher for use in sweepers.

A key element of this electric drive solution is the 360-volt system, which reached production readiness in 2023. DEUTZ is collaborating with customers on pilot projects for a range of applications using the system, including electric tracked dumpers and cranes, concrete pumps, mini excavators, and rapid charging solutions. Additionally, DEUTZ is working with customers to develop preproduction versions of new charging systems for use in logistics and at airports. In this context, DEUTZ is also focusing on retrofitting, i.e. the conversion of diesel vehicles to eco-friendly electric drives.

Starting in 2024, DEUTZ will also be one of the first companies to offer a complete »plug and play« off-road rapid charging station. Based on the PowerTree system, which has been in development since 2021, it will enable fast and safe charging of electric machinery and construction vehicles.

Diesel engines The alliance with Daimler Truck AG for medium-duty and heavy-duty engines, and the takeover of sales and service activities from Rolls-Royce for a range of industrial engines with capacities from 5 to 16 liters and power output of up to 480 kW, are key to the future research and development activities relating to DEUTZ diesel engines. The acquisition of license rights significantly expands the existing off-highway portfolio from as early as 2024, particularly in the agricultural machinery and construction equipment sectors. By reaping synergies in product development, DEUTZ is making a considerable saving on its R&D spending. This includes the optimization and further development of its classic internal combustion engines and an increased focus on developing a climate-neutral product portfolio.

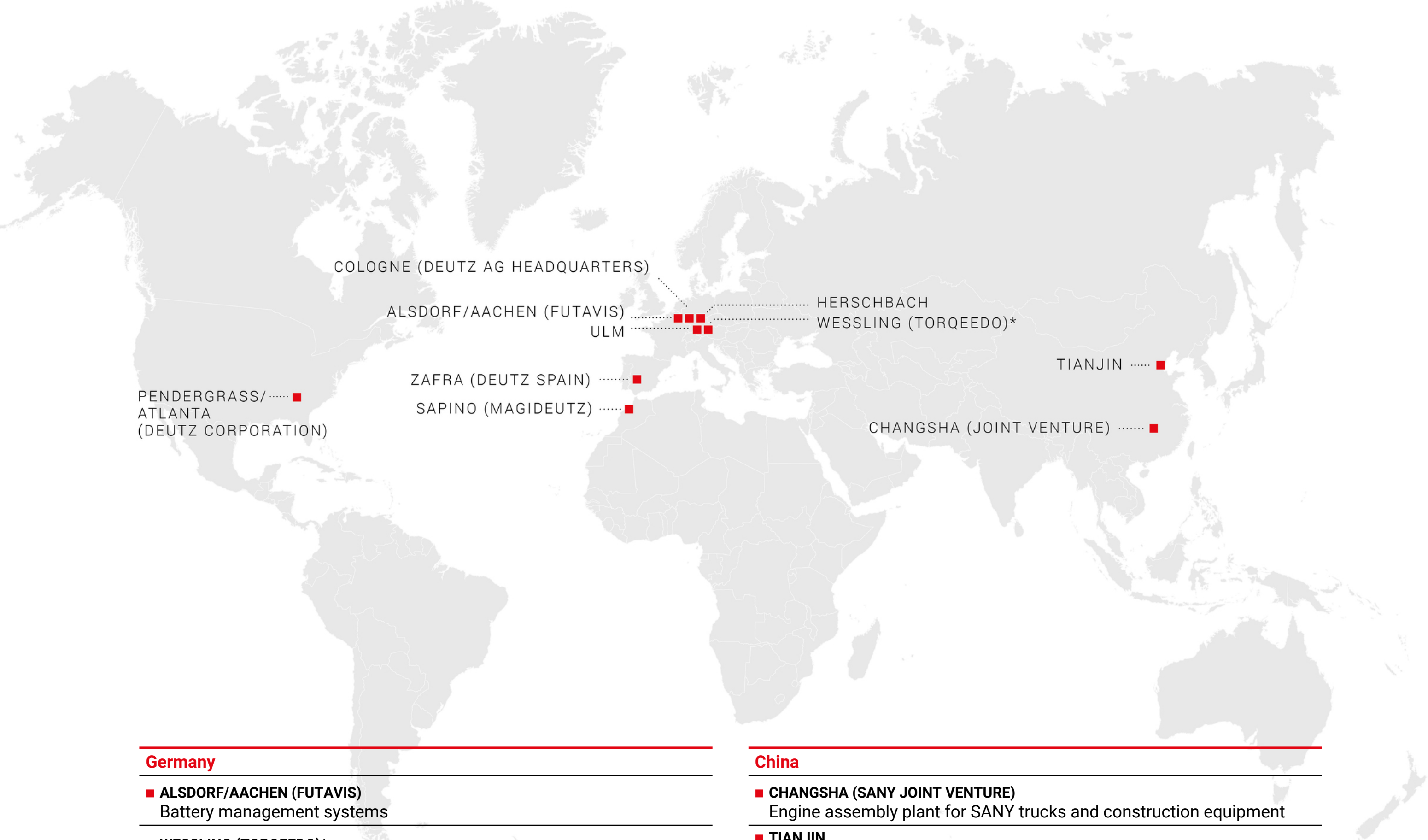
Work on the engine portfolio in the power range up to 130 kW continued, for example through the development partnership with John Deere Power Systems that was established over three years ago. The partnership aims to prepare the DEUTZ TCD 3.9 for volume production, which is scheduled for 2025. The engine can be used in all types of industrial applications and will be suitable for variants compatible with the climate-neutral fuels of the future.

As previously announced, DEUTZ began volume production of the new DEUTZ TCD 5.2 engine in 2023. 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 DEUTZ TCD 5.2 can be run on alternative fuels such as biodiesel and is also primed for hybrid-electric operation thanks to the 48-volt electric drive option.

DEUTZ had already approved all **EU emission stage V** drives for operation with paraffinic diesel fuels such as **HVO** (Hydrotreated Vegetable Oil) by the end of 2022. HVO is a biofuel produced from biological waste, slurry, and used cooking oils and fats, and is therefore not in competition with food production. The use of HVO fuels reduces the carbon footprint of DEUTZ’s internal combustion engines by up to 90 percent. These fuels could grow in importance in 2024, as the German government agreed an amendment to the Federal Immission Control Act (BImSchG) in 2023 that will permit HVO100 to be sold at public filling stations in Germany from 2024 onward. It has already been on sale in other EU countries for some time. However, the Federal Council (Bundesrat) has yet to give its approval.

Production and logistics

DEUTZ Group production sites



Germany

- **ALSDORF/AACHEN (FUTAVIS)**
  Battery management systems
- **WESSLING (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 (V engines, air-cooled/oil-cooled engines).
  Production of the DEUTZ PowerTree, Xchange engine remanufacturing, small production runs for crankcases, crankshafts,
  and gearwheels, and small production runs for engine series due to be discontinued

China

- **CHANGSHA (SANY JOINT VENTURE)**
  Engine assembly plant for SANY trucks and construction equipment
- **TIANJIN**
  Assembly plant for engines with capacities of less than 4 liters and 6 liter engines 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 (DEUTZ SPAIN)**
  Center of excellence for manufacturing 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 (DEUTZ CORPORATION)**
  Value-added production, Xchange engine remanufacturing

*Discontinued.

DEUTZ achieved its production targets in 2023 despite significant weakening of demand in China, with production output rising from 184,965 DEUTZ engines in 2022 to 186,427[37]. As in previous years, the main plant in Cologne-Porz accounted for the bulk of production, which was mainly in the Classic segment. Just under 165,200 engines were made there, an increase on the figure for 2022, while in Ulm the number decreased to just over 16,000. Around 5,200 engines were manufactured in the Tianjin plant in China, which was more than in the prior year. The figures for the joint venture with SANY for engine assembly in Changsha (also in China), where around 8,700 engines were made, are not consolidated.

The slight increase in engine production in 2023 was achieved despite further material shortages and delays in the supply chain. These were exacerbated toward the end of the year by the crisis in the Middle East and, in particular, by the logistical situation around the Red Sea. DEUTZ responded by introducing a number of countermeasures in its internal and external supplier networks, including rescheduling at short notice and comprehensive shortfall management. See also Purchasing and procurement, p. 47 onward, and Procurement market, p. 49 onward.

Improved efficiency for at least 200,000 engines in the future The Company's overarching goal remains to progressively increase production efficiency and put in place the conditions necessary to produce at least 200,000 engines a year in the Classic segment on a sustainable basis. See also Strategy and objectives, p. 37 onward.

With this target in mind, DEUTZ optimized its production processes and expanded its global production network in 2023 through several strategic core activities. Work on optimizing the organizational structure and the production processes focused on supply chain management and material flow management. In 2023, the supply chain managers began reporting directly to the DEUTZ Board of Management (COO). In order to optimize material handling and to group all logistics operations together at the Cologne site, activities that used to be split across five warehouses have now been brought into the new multi-function center. This is expected to generate considerable cost savings and efficiency gains in production over the coming years.

A group-wide initiative was also launched to optimize inventories in the areas of finished products, components, and service. Global inventory management was reorganized to ensure the sustainability of the initiative.

DEUTZ's supplier base will change significantly over the next few years. DEUTZ must secure the long-term availability of relevant components. Under the Resilience project, these parts were first identified so that, in a next step, alternative suppliers could be sought and strategic make-or-buy decisions could be made.

After a period of intense preparation, the planned third production shift was introduced in the main plant in August and, for a time, this made it possible to produce up to 800 engines a day with an additional 200 workers. In the face of weakening demand, however, production was scaled back again in the fourth quarter of 2023. **Supply chain management** was also a key focus of sales and operations planning and inventory management. More than 60 initiatives to optimize working capital were launched worldwide. Intensive discussions were also held with suppliers on the subject of pricing.

In China, DEUTZ is on track to achieve its objective of significantly increasing the share of materials sourced locally at the Tianjin site. At the joint venture site in Changsha, the focus was on getting production ready for the new engines. Work continued apace on automation and digitalization at all DEUTZ sites and numerous measures were implemented to increase efficiency on some production lines by up to 25 percent. The dual sourcing policy was stepped up in order to strengthen security of supply for the most important engine series. With regard to the new DEUTZ Green product portfolio, the Company was able to push ahead with the expansion of volume production for products such as the PowerTree. And finally, work began on improving IT structures and digitalizing activities across the Group. This project will be continued in 2024. The **Kaizen** workshops, **lean** management training, and the implementation of lean projects to increase cost efficiency that began in recent years was continued at all sites. See also Strategy and objectives, p. 37 onward.

Improvement measures at all sites worldwide DEUTZ initiated, or in some cases completed, numerous measures to improve production efficiency at its sites in 2023, with the aim of improving its technical performance and thereby safeguarding its long-term competitiveness.

At head office in **Cologne**, extensive technical preparations were made in 2023 to enable the new assembly set-up for engines with capacities of between four and eight liters to be brought on stream on two production lines in the first half of 2024 as announced. The progress made with the digitalization and automation of the assembly processes was particularly impressive. The ramping up of production to three-shift operation, as mentioned above, shows that DEUTZ is now able to respond relatively flexibly to changes in demand. Production output was further boosted by means of technical improvements and automation measures on several production lines. Pre-production of hydrogen engines on one of the lines also began as scheduled. This and the related start of the conversion of a second production line at the end of 2023 laid the foundations for the first 100 hydrogen engines to be produced and delivered to China on time in the second half of 2024. In total, 26 Kaizen workshops on process optimization were held in 2023, together with numerous employee workshops on the operationalization of the Dual+ strategy. The major investment projects for 2024 will be the commissioning of the new assembly line 6 for 4–8 liter engines and H2 engines, the technical upgrading of the production test benches in readiness for the hydrogen engine, and the conversion of the production line for engines with a capacity of less than 4 liters for the integration of the new 3.9 engine series for SOP 2025.

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

The many projects on automation, lean management training, and team training also formed the focus of investment activity for the optimization of production and material flows in 2023 in the **shaft center** at Cologne-Porz, at the **Herschbach** site, and in the **crankcase manufacturing** in Kalk. In the shaft center, the necessary preparations were made to secure the supply of components for the planned production of hydrogen engines in Cologne. Production efficiency was further improved at all levels through numerous automation projects. Preparations for the production of crankshafts for the new 3.9 engine series also went to plan.

At the **Herschbach** components plant, DEUTZ pressed ahead with the construction of a new logistics hall. Project delays meant that there were no spades in the ground until the middle of January 2024. Two additional five-axle machines came on stream, increasing production output efficiency and flexibility at the site. DEUTZ also continued to invest in the digitalization and optimization of the supply chain.

At the **Ulm** plant, production of a technically advanced generation of the DEUTZ PowerTree began in 2023. The small production runs have started successfully and will be continued in 2024 with additional functionalities for the mobile rapid charging stations. See also non-financial report, Product Stewardship, p. 132 onward. In collaboration with the battery specialist Futavis, a DEUTZ subsidiary, battery assembly was successfully moved to Ulm from the site of investee company Torqeedo. Going forward, Futavis will support staff training and the production process in Ulm, which began in January 2024. To improve production efficiency, a new CNC turning machine and several new measuring machines were installed, all of which are highly automated. The supply chain processes were strengthened through optimization of the transport routes and relocation of production activities for smaller engine sizes.

The final steps of the industrialization and process design phase for the manufacture of cylinder head prototypes of the 7.8 liter hydrogen engine were completed at the Spanish plant in **Zafra** and full production is scheduled to begin in 2024. The same applies to the preparatory work for the expansion of production component manufacturing (crankcase cylinder heads, **conrods**, and transmissions) for the new 3.9 liter engines, both for internal supply and for delivery to John Deere. Full production of the engine is scheduled to start in 2025. Production of the crankcase and the bearing cap for the 3.6 liter engines will be largely automated in future as a result of various projects and investments that have already been initiated. Cost efficiency was also improved through the construction of the first phase of a photovoltaic system, which will initially cover around 6 percent of energy consumption of the plant. Additionally, an agreement was signed with a major energy supplier for the installation of a new photovoltaic system. This is scheduled to be operational by the end of 2024 and, with optimum sunlight utilization, is expected to reach 30 percent of the plant's total consumption. As well as significantly reducing costs, this will make a major contribution to the decarbonization of the production processes.

Production of the 2.9-liter exchange engine began at the **US plant in Pendergrass (Georgia)**. In addition, a lot of time was invested in improving supply chain processes as part of the Foresight project. A new COO position was established with responsibility for operations, supply chain, and purchasing. The aim is to improve production efficiency: from supply chain management, the reorganization of material flows and automation to the introduction of lean management and the associated reduction in the complexity of production processes. The projects planned for implementation of the above measures are scheduled for 2024 and beyond.

Production in China In the plant in Tianjin where, despite difficult economic conditions in the Chinese market, more engines were produced than in 2022, improvement efforts focused on the optimization of material sourcing. DEUTZ is thus confident that the share of locally made materials and components will soon reach the target of 50 to 69 percent. Intensive discussions were held with several suppliers in respect of security of supply and quality assurance. Combined with other improvement measures, this should secure a lasting increase in the production efficiency of the 2.9 and 6.1 series made there for the local Chinese market.

As part of a joint venture for engine assembly for construction machinery and heavy trucks with and for the local manufacturer SANY, DEUTZ put another assembly line into operation in mid-2023, dedicated to the production of DEUTZ 5.7 liter engines for **off-highway** applications.

Purchasing and procurement

The DEUTZ Group maintains business relationships with around 5,600 suppliers in 61 countries. With a total purchasing volume of €1.27 billion worldwide, the Company's supply chain makes a significant contribution to its value creation process.

Delays in the supply chain were still evident in 2023, and this continued to create challenges both for Purchasing and for the production units. The delays were primarily caused by the knock-on effects of the semiconductor crisis and were particularly noticeable in the first half of the reporting period. The ongoing war in Ukraine is still affecting the global flow of goods and thus impacting on DEUTZ, although none of the Group's direct suppliers are based in the crisis regions. The geopolitical fallout from the war also pushed up prices, including those for energy and raw materials, leading to direct and indirect cost increases on the procurement side. See also Procurement market, p. 49 onward.

Inflationary price pressures were the main challenge facing the procurement market in 2023. To mitigate the rising procurement costs, DEUTZ adhered to the process established in the prior year, as part of its performance initiatives, to share the burden of rising procurement costs with its suppliers and customers. In 2023, many negotiations were again held with suppliers in this context. In addition, the Company was able to pass on the increased procurement costs in full to customers in the form of price rises.

DEUTZ has adopted this market-oriented pricing policy in order to be better able to compensate for swings in prices for raw materials and energy, for example, and to strengthen its competitive position. The increasingly proactive approach to pricing is primarily aimed at maintaining relatively stable margins, even in an inflationary environment.

Supplier risk management 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 all production component suppliers and suppliers of non-production items. Monitoring on the basis of the specified indicators enables Purchasing to proactively take risk-mitigating measures where required, to ensure a reliable supply. The set of indicators used in risk management was extended in 2023 to include country-specific factors. ESG factors were also included. Regular dialogue is maintained with the individual departments in order to flag up significant changes and to draw up any measures that need to be taken on this basis.

Global purchasing organization and strategy DEUTZ plans to gradually centralize Group purchasing so that, in the medium term and as far as is reasonably practical, all subsidiaries will be subject to the same principles as apply at DEUTZ AG. The »Purchasing Excellence« unit, which is responsible for this, optimized its processes in the year under review and introduced a new procurement platform (supplier relationship management tool), initially for the non-production functions. DEUTZ also uses an established platform that provides it with a transparent overview of the supplier base across all sites and allows it to structure spending across the Group in a standardized way. The integration of additional international suppliers was also stepped up in the year under review. Furthermore, DEUTZ adopted and implemented a groupwide purchasing guideline in 2023 that is intended to ensure that purchasing activities across the whole Group follow uniform standards. The Company also introduced a new meeting format for international dialogue in 2023 with the aim of facilitating collaboration across its multi-site purchasing organization. The growing importance of sustainable procurement was one of the themes discussed here.

Sustainable procurement DEUTZ systematically manages its suppliers using a »supplier cockpit«, with which it monitors 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. For example, DEUTZ uses a web-based assessment platform for global supply chains and a business partner compliance tool in order to be able to query and evaluate various aspects of sustainability. A tool was created that draws on publicly accessible information to ensure that potential sustainability risks in its supply chain are monitored on an ongoing basis. Further information see also the non-financial report, Supplier management, p. 129 onward.

Supply Chain Due Diligence Act The topic of sustainable procurement gained added significance with the adoption of the Supply Chain Due Diligence Act (LkSG), which came into effect in Germany on January 1, 2023. It is intended to prevent, minimize, or eliminate risks relating to human rights and the environment within the supply chain. In this context, DEUTZ published its first declaration of principles in 2023. In addition to a description of how DEUTZ complies with its due diligence obligations, the declaration also includes identified high-priority human rights and environmental risks. It also sets forth what DEUTZ expects from its employees and suppliers. Further information see the non-financial report, Supplier management, p. 129 onward.

Employees[38]

Overview of the DEUTZ Group's workforce[39]

FTEs

	Dec. 31, 2023	Dec. 31, 2022
DEUTZ Group	**5,084**	**4,773**
thereof		
In Germany	3,387	3,255
Outside Germany	1,697	1,518
thereof		
Non-salaried employees	2,725	2,648
Salaried employees	2,270	2,038
Trainees	89	87

DEUTZ employed 5,084 people worldwide as at December 31, 2023, which was 311, or 7 percent, more than at the end of 2022. One reason for this was the temporary introduction of three-shift operation at the main assembly plant in Cologne. In addition, the number of employees in the USA rose by more than 13 percent to 452, due to the increased production volume and the setting up of new service locations. Furthermore, the expansion of the basis of consolidation through the acquisition of Diesel Motor Nordic Group in Scandinavia and the Chilean engine dealer Mauricio Hochschild Ingeniería y Servicios S.A. (MHIS) caused the headcount in the service business to grow by a total of 123 employees.

At 66.6 percent, the bulk of the Group's workforce is based in Germany. Of the 3,387 employees in Germany, 2,731 work at the Company's headquarters in Cologne. The number of people employed outside Germany rose by 12 percent to 1,697 compared to the previous year, primarily due to the acquisitions made in 2023 and the expansion in the USA.

The number of temporary workers rose year on year from 233 to 249. This means they made up less than 5 percent of the total workforce in 2023.

Note: The Torqeedo Group, which is classified as a discontinued operation, employed 199 people and a further 5 temporary workers as at the end of 2023.

[38] Figures for the number of employees and temporary workers in this section are expressed as FTEs (full-time equivalents).
[39] Employees of continuing operations; excluding temporary workers.

Macroeconomic and industry-specific environment

Economic environment

High inflation continues to weigh on growth In 2023, inflation was down significantly compared with the previous year. Nevertheless, global economic growth was slightly slower than in 2022 owing to weak consumer sentiment – especially in the eurozone – due to lower demand in the interest-rate-sensitive manufacturing and service sectors, and the lingering adverse impact of high energy prices. The latest estimate from the International Monetary Fund (IMF) shows a rise in global value creation of 3.1 percent, a slight decline compared with the prior-year figure of 3.5 percent. Growth in global trade slowed significantly, from a rate of 5.2 percent in 2022 to just 0.4 percent in 2023. This was primarily attributable to the rate of inflation, which was still high at an annual average of 6.8 percent in the reporting year (2022: 8.8 percent).[40]

GDP growth[41]

YoY change (%)

	2023	2022[42]
Global	3.1	3.5
Industrialized countries	1.6	2.6
Eurozone	0.5	3.4
Germany	-0.3	1.8
USA	2.5	1.9
Emerging markets	4.1	4.1
China	5.2	3.0

Whereas GDP in the industrialized countries increased by a total of 1.6 percent, the emerging markets experienced much stronger growth of 4.1 percent. China, an emerging market with great influence on the global economy, recorded growth of 5.2 percent and thereby saw a return to above-average growth compared with other emerging markets, following the easing of its highly restrictive coronavirus containment policies.

Procurement market

After raw material and energy prices as well as transportation costs had risen exceptionally sharply in 2022, they fell again noticeably in 2023 as they headed back toward pre-pandemic levels. Prices for raw materials fell and sea freight capacity increased again, but prices for land freight remained elevated. The supply of materials in the semiconductor sector improved during the year.

Energy prices The volatility of electricity and gas prices continued to ease in 2023, with prices falling sharply year on year. This was mainly because gas storage facilities were full and the winter was relatively mild. The ongoing expansion of renewable energies and the growing volumes of electricity from wind and solar power being fed into the grid also contributed to the year-on-year reduction in prices. However, electricity and gas prices remained much higher than in 2020 and 2021.

Raw material prices Having been at a high level in 2022, prices for raw materials fell significantly in 2023. Prices for foundry scrap and wrought iron scrap went down by around 14 percent and 18 percent respectively compared with average prices for 2022, while prices for the non-ferrous metals aluminum and nickel, for example, slid by around 17 percent and 18 percent respectively.

Transportation market In 2023, the transportation market saw a further reduction in sea freight rates – particularly on routes between Asia and Europe and between Europe and the USA – as well as significant improvements in capacity and transit times. Also, a small number of ship departures were cancelled and shipowners refrained from launching new ships, which would have created additional capacity, due to low utilization of existing capacity. In the land freight sector, there is still a structural problem of too few drivers and unfilled vacancies. However, due to the fall in consumer spending, this had little adverse impact and did not lead to transportation bottlenecks as sufficient capacity was available.

[40] IMF: World Economic Outlook Update, January 2024.
[41] IMF: World Economic Outlook Update, January 2024.
[42] Previous year's figures adjusted according to IMF: World Economic Outlook Update, January 2024.

Industry-specific environment

Diesel engine market Based on currently available figures, the individual **off-highway** markets served by DEUTZ – construction equipment, **material handling** equipment, and agricultural machinery – presented a mixed picture in terms of how they performed in 2023. The reasons for this varied significantly by region. In Europe, low economic growth and the ongoing negative impact of the war in Ukraine resulted in only a modest increase in unit sales. In China, the weak economy and the simmering real estate crisis had a dampening effect on unit sales. The markets in North America proved resilient in the face of global crises and mostly recorded an uptick in unit sales.

In the construction equipment segment, the year-on-year change in unit sales varied from region to region in 2023: In North America, the market proved robust in the face of difficult economic conditions thanks to extensive government stimulus, such as the Biden administration's Infrastructure Bill. Europe did not see any growth, despite the European Commission's infrastructure program.[43] The Chinese market for construction equipment experienced a further year-on-year slump. This was partly the result of market saturation and partly due to the effects of the real estate crisis, which has already caused two major casualties in property developers Evergrande and Country Garden.[44]

Demand for material handling equipment was positive in all regions, albeit at a low level. Unit sales of forklift trucks in North America and Europe, for example, were very encouraging in 2023 due to the government stimulus packages.[45] Unit sales in China rose year on year, driven by the high proportion of electric units. In the lifting platform and telehandler segment, leasing firms maintained high levels of investment in their company fleets, which led to a rise in unit sales.

After two years of strong growth, unit sales in the agricultural machinery market reached a turning point in Europe and North America in 2023. Although there has been a further moderate increase in unit sales in the industry, new orders are declining. In China, the structural and technological adjustments initiated by the introduction of the new CN 4 emissions standard appear to have been largely completed. However, subsidies for the purchase of new, high-performance tractors have been withdrawn, meaning that unit sales are in decline overall.[46]

[43] VDMA, Construction Equipment and Building Material Machinery, February 2024.
[44] Chinese Construction Machinery Association, CCMA Sales YTD 12-2023, January 2024.
[45] Power Systems Research, OE Link Update Bulletin – Q4 2023, January 2024.
[46] VDMA, Geschäftsklima und Marktentwicklung weltweit, November 2023

Business performance in the DEUTZ Group

DEUTZ's healthy business performance in 2023 is a reflection of its steadfast efforts to implement the Dual+ strategy. Robust demand meant that engine sales and consolidated revenue rose as expected. And thanks to the increased volume of business in the Classic segment, market-oriented pricing, and very strong growth in the higher-margin service business, there was also a marked improvement in profitability. This was achieved despite countervailing currency effects, higher procurement and employment costs, and ongoing disruption in the supply chain. See also Procurement market, p. 49 onward. See also Purchasing and procurement, p. 47 onward, and Production and logistics, p. 44 onward.

Due to the advanced stage of contract negotiations and agreement of the announced sale of the Torqeedo Group with the Supervisory Board in December, this activity is presented as a discontinued operation in accordance with IFRS 5. The sale agreement was signed in January 2024. The transaction is expected to be completed toward the end of the first quarter of 2024. The Torqeedo Group was part of the DEUTZ Green segment.

Unless indicated otherwise, the figures for the Group and for the DEUTZ Green segment that are presented below relate only to continuing operations. The prior-year figures have been adjusted in accordance with the provisions of IFRS 5.

In accordance with the provisions of IFRS 5, the prior-year figures in the balance sheet are not adjusted. The prior-year figures in the presentation of net assets have also not been adjusted for the same reasons.

New orders

DEUTZ Group: New orders

€ million

New orders received by the DEUTZ Group in 2023 amounted to €1,749.9 million, which was down by 11.7 percent compared with the high volume received in the previous year. This had been due to a decline in demand and to spending brought forward of more than €100 million in view of the fixed-volume program implemented for compact engines in the fourth quarter of 2022. The supply chain disruptions, resulting in longer delivery times during that period, had prompted customers to place orders early and with relatively long order horizons. This was no longer the case in 2023.

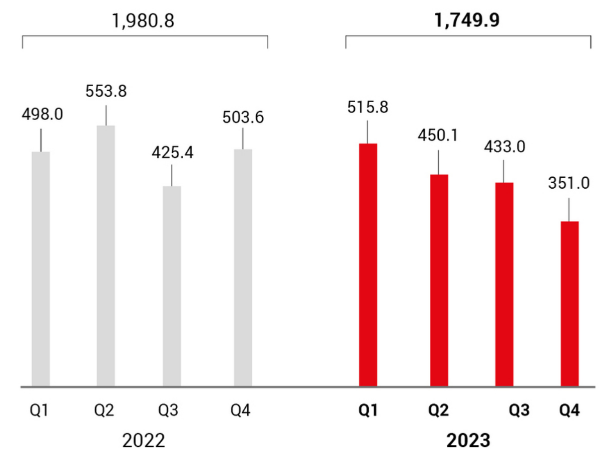
At regional level, there was a small improvement in new orders in the Americas. In the EMEA[47] region, Germany delivered a solid performance with only a slight drop in new orders, but demand slumped in the rest of Europe. The order situation in the Asia-Pacific region was heavily affected by China's economic woes. At application segment level, Construction Equipment, Agricultural Machinery, and Stationary Equipment recorded the sharpest falls in new orders. By contrast, demand rose in the Material Handling application segment and in the Miscellaneous application segment (especially commercial vehicles).

New orders went up sharply in the service business, from €453.5 million in 2022 to €480.1 million in the reporting year, validating the strategic decision to focus on the growth of these activities. The increase in new orders was particularly pronounced in parts sales and the Xchange business.

Note: New orders received by the discontinued operation Torqeedo declined by 10.2 percent to €47.4 million.

DEUTZ Group: New orders by quarter

€ million



The aforementioned effect of spending brought forward was most noticeable in the fourth quarter. Along with the decline in demand, it caused new orders to fall sharply to €351.0 million in the final quarter of 2023 – a decrease of 30.3 percent compared with the same quarter of 2022.

This also meant that orders on hand were down significantly year on year, standing at €450.4 million as at the end of 2023 (December 31, 2022: €766.5 million).

[47] Europe, Middle East, and Africa.

Unit sales

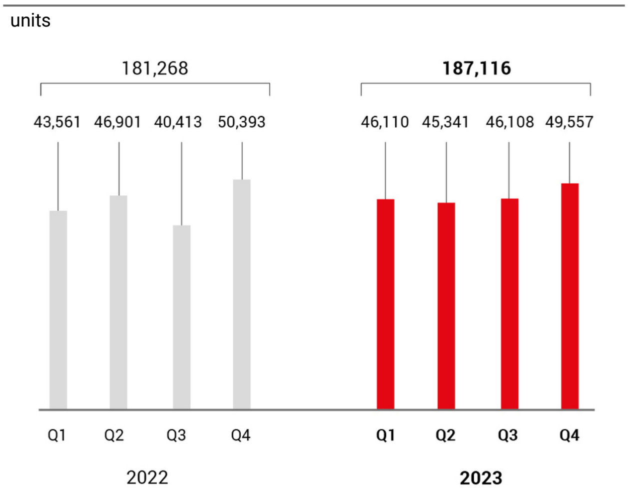
The number of DEUTZ engines sold increased by 3.2 percent compared with the previous year (181,268) to 187,116 units and was therefore within the range of 185,000 to 190,000 DEUTZ engines that had been forecast most recently.[48]

DEUTZ Group: Unit sales

The rise in unit sales was attributable to the significant growth in the **Material Handling** application segment of 20 percent. However, the other application segments that are key to unit sales – Construction Equipment, Agricultural Machinery, and Stationary Equipment – all recorded single-digit percentage decreases. At regional level, the Americas recorded the strongest increase in unit sales at 13.8 percent, although DEUTZ also notched up growth in EMEA. By contrast, unit sales fell sharply, by almost 10 percent, in the Asia-Pacific region on the back of faltering demand in China.

Note: The unit sales of the discontinued operation Torqeedo fell from to 53,414 in 2022 to 36,131 units in 2023, a significant decline of 32.4 percent.

DEUTZ Group: Unit sales by quarter



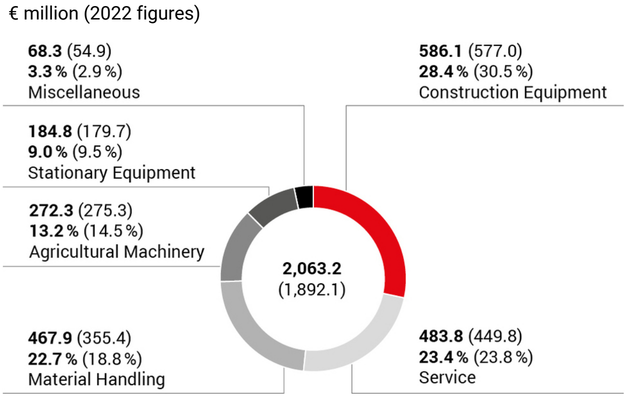
In the fourth quarter of 2023, unit sales across the Group declined slightly year on year to 49,557 (Q4 2022: 50,393). Here too, the Americas region stood out with a rise of 8.7 percent, whereas the EMEA and Asia-Pacific regions recorded decreases compared with the prior-year period of 2.4 percent and 10.2 percent respectively. Among the application segments, both Material Handling and Agricultural Machinery saw a noticeable year-on-year improvement in unit sales in the fourth quarter. However, unit sales went down sharply in the Construction Equipment and Stationary Equipment application segments.

Revenue

DEUTZ Group: Revenue

Reflecting the growth in unit sales and thanks to market-oriented price adjustments, consolidated revenue increased by 9.0 percent to €2,063.2 million in 2023.

DEUTZ Group: Revenue and proportion of revenue by application segment



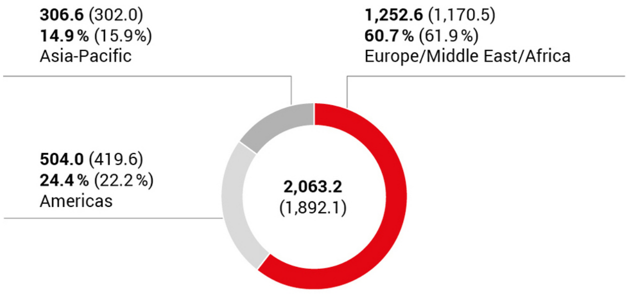
The growth in revenue was driven by almost all application segments. Agricultural Machinery was the only exception, registering a small decrease. The most pronounced rise in revenue was in the **Material Handling** application segment. DEUTZ's revenue from the service business rose by 7.6 percent year on year to €483.8 million, which was as expected. In addition to the contribution of the two acquisitions in the reporting year and the two in the previous year, this growth was mainly driven by the expansion of parts sales and the exchange engine business (DEUTZ-**Xchange**).

Note: The most recently issued revenue guidance[49] of around € 2.1 billion related to the entire Group, including discontinued operations. At 2,104.8 million, the forecast was met.The revenue of the discontinued operation Torqeedo fell sharply, by 32.1 percent, to €41.6 million in 2023.

[48] See press release dated November 9, 2023.
[49] See quarterly statement dated November 9, 2023.

DEUTZ Group: Revenue and proportion of revenue by region

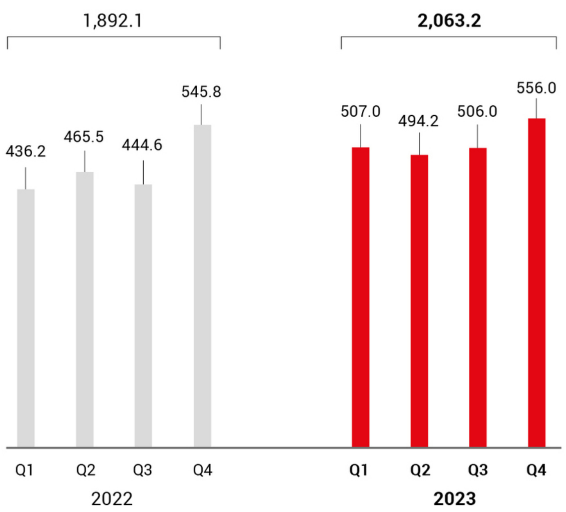
€ million (prior year figures)



All regions reported growth. The Americas region's performance was particularly encouraging (rise of 20.1 percent), and EMEA also saw strong growth (rise of 7.0 percent). And despite a fall in revenue in China, the overall revenue of the Asia-Pacific region was up by 1.5 percent.

DEUTZ Group: Consolidated revenue by quarter

€ million



In the fourth quarter of 2023, the Group's consolidated revenue from continuing operations swelled by 1.9 percent to €556.0 million. At regional level, revenue increased in the Americas, held steady in EMEA, and went down in Asia-Pacific. Among the application segments, **Material Handling** performed well, revenue from Agricultural Machinery was virtually unchanged year on year, and both Construction Equipment and Stationary Equipment saw decreases in revenue.

Earnings

DEUTZ Group: Overview of results of operations[50]

€ million

	1–12/2023	1–12/2022	Change
Revenue	**2,063.2**	**1,892.1**	**9.0 %**
Cost of sales	-1,616.4	-1,541.9	4.8 %
Research and development costs	-109.6	-80.1	36.8 %
Selling and administrative expenses	-207.4	-172.0	20.6 %
Other operating income	24.0	33.6	-28.6 %
Other operating expenses	-25.8	-26.2	-1.5 %
Impairment of financial assets and reversals thereof	0.4	-4.4	-
Profit/loss on equity-accounted investments	-5.5	-3.7	-48.6 %
Other net investment income	0.6	0.2	200.0 %
EBIT	**123.5**	**97.6**	**26.5 %**
Interest income	1.8	1.3	38.5 %
Interest expense	-16.4	-6.3	160.3 %
Other financial income/finance cost	-0.7	-0.9	-22.2 %
Financial income, net	**-15.3**	**-5.9**	**-159.3 %**
Income taxes	-1.3	3.7	-
Net income continuing operations	**106.9**	**95.4**	**12.1 %**
Net income discontinued operations	**-25.0**	**-15.2**	**-64.5 %**
Net income	**81.9**	**80.2**	**2.1 %**
Adjusted EBIT – Green (EBIT before exceptional items)	-37.1	-25.1	-47.8 %
Adjusted EBIT – Classic (EBIT before exceptional items)	180.1	128.1	40.6 %
Consolidation/ Other[51]	0.6	0.5	20.0 %
Adjusted EBIT (EBIT before exceptional items)	**143.6**	**103.5**	**38.7 %**
Exceptional items	-20.1	-5.9	240.7 %
EBIT	**123.5**	**97.6**	**26.5 %**

DEUTZ Group: Key figures for the entire Group[52]

€ million

	1–12/2023	1–12/2022	Change
Revenue	2,104.8	1,953.4	7.8%
EBIT	**100.3**	**82.6**	**21.4%**
Net income	**81.9**	**80.2**	**2.1%**
Adjusted EBIT – Green (EBIT before exceptional items)	-60.3	-39.2	-53.8%
Adjusted EBIT – Classic (EBIT before exceptional items)	180.1	128.1	40.6%
Consolidation/ Other	0.6	0.5	20.0%
Adjusted EBIT (EBIT before exceptional items)	**120.4**	**89.4**	**34.7%**
Exceptional items	-20.1	-6.8	195.6%
EBIT	**100.3**	**82.6**	**21.4%**

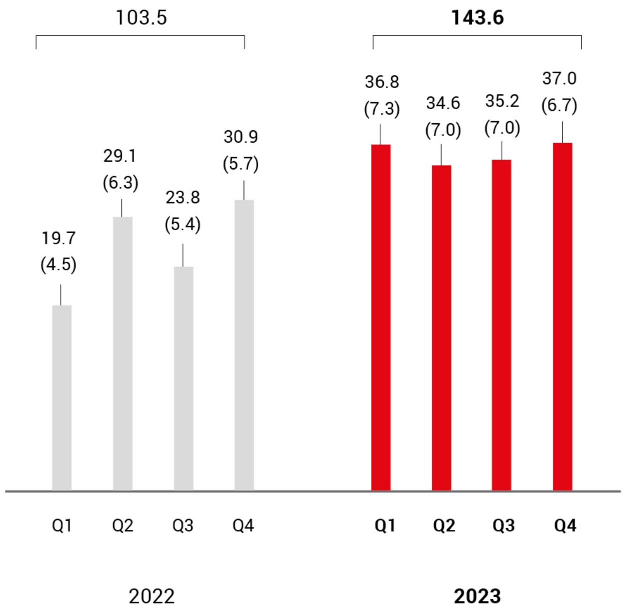
[50] As of 2023, amortization on capitalized development expenditure is no longer reported under »Research and development costs« but under »Cost of sales«. The previous year's figure in the results of operations has been adjusted accordingly to enable comparison.
[51] Consolidation/Other predominantly consists of non-operating centralized activities as well as effects on earnings resulting from the elimination of intragroup transactions between the segments.
[52] The key figures for the entire DEUTZ Group include continuing operations and discontinued operations (including Torqeedo Group).

DEUTZ Group: Adjusted EBIT (EBIT before exceptional items) and EBIT margin (before exceptional items)

€ million (EBIT margin, %)

DEUTZ Group: Adjusted EBIT (before exceptional items) by quarter

€ million (EBIT margin, %)



Adjusted EBIT DEUTZ generated adjusted EBIT (EBIT before exceptional items) from continuing operations of €143.6 million in 2023, which was up substantially on the prior-year figure of €103.5 million. The significant improvement of €40.1 million was due to the much higher volume of business, combined with market-oriented pricing and the focused implementation of the growth strategy in the service business, to which the company acquisitions of the last two reporting years also contributed. Countervailing factors offset this improvement, primarily volume- and price-related increases in procurement costs on the back of higher prices for energy and materials. There was also an adverse impact from the rise in selling and administrative expenses and from negative currency effects. However, DEUTZ's healthy business performance outweighed these negative factors.

The adjusted EBIT margin from continuing operations increased significantly year-on-year from 5.5 percent to 7.0 percent. The DEUTZ Group's return on capital employed[53] (ROCE before exceptional items) improved from 11.0 percent to 14.4 percent over the same period.

In the fourth quarter of 2023, adjusted EBIT went up year on year to €37.0 million (Q4 2022: €30.9 million) owing to growth of the high-margin service business and positive currency effects.

Note: The most recent forecast range of 5.3 to 5.8 percent for the adjusted EBIT margin[54] relates to the entire Group, including discontinued operations. At 5.7 percent, the figure was at the upper end of this range. The DEUTZ Group's return on capital employed (ROCE before exceptional items) including discontinued operations improved from 9.0 percent to 11.1 percent in the same period and therefore exceeded the original guidance in the 2022 annual report (a percentage figure in the high single digits).

In 2023, there were exceptional items amounting to an expense of €20.1 million. These mainly related to impairment losses recognized on capitalized development expenditure and on the related resources and parts of production (€16.8 million), to the impairment of a sales license (€1.5 million), to costs in connection with the sale of the Torqeedo Group (€1.0 million), and to additions to provisions for share options of former members of the Board of Management (€0.4 million). After taking exceptional items into account, EBIT for the year under review stood at €123.5 million (2022: €97.6 million).

Cost of sales The significant growth in the volume of business pushed the cost of sales up by 4.8 percent to €1,616.4 million in 2023. The year-on-year increase was mainly attributable to the volume-related rise in the cost of materials and staff costs, and higher production and transportation costs. The gross margin[55] improved from 18.5 percent in 2022 to 21.7 percent in 2023.

Research and development costs Starting in 2023, amortization on capitalized development expenditure costs (2023: €15.1 million; 2022: €17.4 million) will no longer be reported under research and development costs but under cost of sales. Research and development costs, which mainly comprise personnel expenses and material expenses, amounted to €-109.6 million in the 2023 reporting year (2022: €-80.1 million). Investment grants received and capitalized development costs are deducted. The rise of €29.5 million compared with the adjusted figure for 2022 is attributable to the increase in development activities, primarily in connection with the TCG 7.8 H2 hydrogen engine and the HDEP engine series (alliance with

[53] 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.
[54] See quarterly statement dated November 9, 2023.
[55] Gross margin: ratio of revenue less cost of sales to revenue.

Daimler Truck AG). In addition, impairment losses of €14.3 million were recognized on capitalized development expenditure in 2023 as a consequence of lower unit sales forecasts for two engine series. Taking into account the previous year's figure of €-97.5 million, which was not adjusted for comparison purposes, the increase would mainly be due to the increase in development activities. The impairment losses in the reporting year would have been offset by the amortization of capitalized development costs of €17.4 million in the previous year.

Selling and administrative expenses In 2023, selling and administrative expenses rose by a total of €35.4 million to €207.4 million. This growth was mainly due to higher consultancy costs in connection with acquisitions and advisory projects, an increase in IT services in preparation for migrating the SAP software to SAP S/4HANA, the consolidation of additional companies in 2023, and an overall rise in headcount.

Other operating income Other operating income totaled €24.0 million in the reporting year. The year-on-year decline of €-9.6 million was largely attributable to lower foreign currency gains.

Other operating expenses Other operating expenses fell only slightly by €0.4 million to €-25.8 million in 2023. The decrease is due to minor offsetting effects.

Impairment of financial assets and reversals thereof The impairment of financial assets relates to impairment losses on trade receivables. The reversal of impairment losses on financial assets in the reporting year was due to changes in the impairment losses recognized on trade receivables.

Share of profit (loss) of equity-accounted investments Owing to the loss attributable to the Chinese joint venture Hunan DEUTZ Power Co., Ltd., the share of profit (loss) of equity-accounted investments deteriorated by €1.8 million to a loss of €5.5 million in 2023.

Financial income, net Net finance costs deteriorated by €9.4 million to €15.3 million in the reporting year. The main reasons for this were the increased drawdown of lines of credit granted by banks, higher refinancing rates (three-month Euribor) for sales of receivables, and higher interest rates used in the measurement of lease liabilities.

Income taxes A tax expense totaling €1.3 million was recognized in 2023. The current tax expense rose by €4.6 million to €20.7 million in line with earnings. Deferred tax income of €19.4 million was also recognized. This effect was due to temporary differences resulting from a reduction in capitalized development expenditure that is not recognized in the tax accounts. It was also related to an increase in deferred tax assets on tax losses carried forward, which was primarily attributable to an improved forecast in the tax planning for the upcoming-five-year period.

Earnings per share Net income rose by €11.5 million to €106.9 million in 2023. The rise in earnings per share from €0.79 in 2022 to €0.86 in the reporting year was relatively low due to the shares issued to Daimler Truck AG. Adjusted for exceptional items, net income rose to €124.5 million (2022: €100.6 million) and adjusted earnings per share to €1.00 (2022: €0.83).

Net income for the reporting year was boosted by deferred tax income of €19.4 million. Excluding this deferred tax income, net income amounted to €87.5 million and earnings per share to €0.70.

Note: Profit for the entire Group (including discontinued operations) was up slightly at €81.9 million (2022: €80.2 million). Earnings per share remained unchanged at €0.66 due to the new shares issued to Daimler Truck AG.

Business performance in the segments

DEUTZ's reporting structure is based on two segments: Classic and Green. The Classic segment encompasses all activities related to the development, production, distribution, and maintenance of diesel and gas engines as well as the related service business. The Green segment consists of all activities related to new drives. This includes hydrogen engines, the battery management specialist Futavis, electric drives, mobile rapid charging stations, and the related service business. Given that DEUTZ is currently only at the start of its transformation, the earnings-related key figures for the Green segment also reflect a substantial level of research and development in the field of electric and hydrogen-powered drive systems.

As already explained, the activities of the Torqeedo Group are presented as discontinued operations in accordance with IFRS 5. The Torqeedo Group was part of the DEUTZ Green segment. Unless otherwise stated, the figures for the DEUTZ Green segment are presented below only for continuing operations. The prior-year figures have been adjusted in accordance with the provisions of IFRS 5. There are no changes for the DEUTZ Classic segment.

DEUTZ Group: Segments

€ million

	2023	2022
New orders		
Classic	1,743.2	1,981.1
Green	6.7	-0.3[56]
Total	**1,749.9**	**1,980.8**
Unit sales (units)		
Classic	186,718	181,249
Green	398	19
Total	**187,116**	**181,268**
Revenue		
Classic	2,058.2	1,889.4
Green	5.0	2.7
Total	**2,063.2**	**1,892.1**
Adjusted EBIT (EBIT before exceptional items)		
Classic	180.1	128.1
Green	-37.1	-25.1
Consolidation/ Other	0.6	0.5
Total	**143.6**	**103.5**

DEUTZ Classic

DEUTZ Classic

€ million

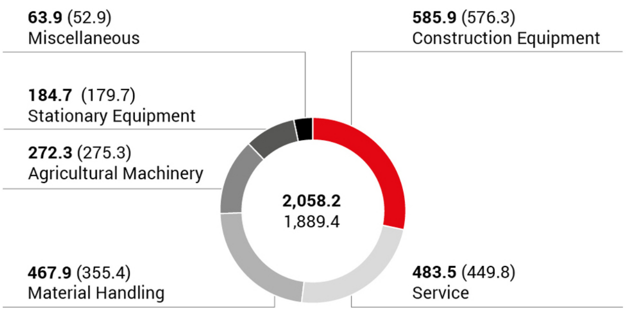
	2023	2022	Change
New orders	**1,743.2**	**1,981.1**	**-12.0 %**
Unit sales (units)	**186,718**	**181,249**	**3.0 %**
Revenue	**2,058.2**	**1,889.4**	**8.9 %**
EMEA	1,247.6	1,167.9	6.8 %
Americas	504.0	419.5	20.1 %
Asia-Pacific	306.6	302.0	1.5 %
EBIT before exceptional items	**180.1**	**128.1**	**40.6 %**
EBIT margin before exceptional items (%)	**8.8**	**6.8**	**+2pp**

New orders received in the Classic segment declined by 12.0 percent to €1,743.2 million in 2023 owing to the effects of the aforementioned spending brought forward. Whereas the **Material Handling** application segment saw a small increase in demand, new orders were down significantly in the Agricultural Machinery, Construction Equipment, and Stationary Equipment application segments. The service business generated further growth of 5.8 percent, taking its new orders to €479.8 million. Orders on hand fell sharply to stand at €445.8 million as at December 31, 2023 (December 31, 2022: €763.7 million). Unit sales advanced by 3.0 percent year on year, with 186,718 engines sold. This rise was driven by the Americas and EMEA regions, which notched up increases of 3.4 percent and 13.5 percent respectively. In the Asia-Pacific region, however, unit sales went down by 10.2 percent. The Material Handling application segment's unit sales jumped by 20.4 percent, whereas the other application segments recorded single-digit percentage decreases.

Segment revenue rose by 8.9 percent to €2,058.2 million in 2023, which was fully in line with expectations. Revenue rose at a faster rate than unit sales mainly due to the effective implementation of price rises.

DEUTZ Classic: Revenue by application segment

€ million (2022 figures)



[56] Negative figure due to cancellations.

The effects of the aforementioned spending brought forward were particularly noticeable in the fourth quarter of 2023 due to the volume of orders that had been placed in the final quarter of 2022 and to a weakening of demand related to the economic climate. As a result, new orders went down by 30.6 percent year on year to €350.6 million. Although the service business generated substantial growth of 15.3 percent, the application segments registered significant year-on-year falls. The segment's unit sales dropped by 2.3 percent to 49,187 engines. Only the Americas region and the Material Handling and Agricultural Machinery application segments recorded significant growth. The Classic segment's revenue increased by 1.7 percent compared with the final quarter of 2022 to stand at €554.2 million in the fourth quarter of 2023.

Adjusted EBIT for the segment (EBIT before exceptional items) rose by a significant €52.0 million year on year to €180.1 million. The improvement compared with the 2022 figure of €128.1 million was largely due to the earnings drivers for 2023 mentioned above and saw the Classic segment's adjusted EBIT margin rise from 6.8 percent to 8.8 percent, which was above the most recent forecast[57] range of between 8.0 percent and 8.5 percent.

In the fourth quarter of 2023, adjusted EBIT for the segment rose year on year by €12.5 million to €48.1 million (Q4 2022: €35.6 million). Most of this improvement was attributable to growth in the high-margin service business and positive currency effects. However, there were adverse effects from the increase in administrative expenses related to newly consolidated companies, from an overall rise in headcount, and from higher consultancy costs in connection with acquisitions and advisory projects. The service business is being boosted not only by market-oriented pricing but also by the growth strategy, which includes the acquisitions made in 2023 and 2022.

DEUTZ Green

DEUTZ Green

€ million

	2023	2022	Change
New orders	**6.7**	**-0.3**[58]	**–**
Unit sales (units)	**398**	**19**	**1,994.7 %**
Revenue	**5.0**	**2.7**	**85.2 %**
EMEA	5.0	2.6	92.3 %
Americas	0.0	0.1	–
Asia-Pacific	0.0	0.0	–
EBIT before exceptional items	**-37.1**	**-25.1**	**-47.8 %**
EBIT margin before exceptional items (%)	**-742.0**	**-929.6**	**+187,6 pp**

The new orders received by the continuing operations of the Green segment amounted to just €6.7 million in 2023 owing to the start-up character of this business. No new orders had been received in 2022. From a regional perspective, the main focus was on EMEA. Orders on hand amounted to €4.6 million as at December 31, 2023, which was up by 64.3 percent from the still very small volume recorded a year earlier. The segment's unit sales were also still low at 398 engines. This was also the case for the segment's revenue of €5.0 million, which was up by 85.2 percent year on year.

In the fourth quarter of 2023, new orders in the Green segment stood at €0.4 million, unit sales at 370 units, and revenue at €1.8 million.

Adjusted EBIT for the segment amounted to a loss of €37.1 million, which represented a year-on-year deterioration of €12.0 million (2022: €25.1 million). This was attributable to increased development expenditure on new drive technologies, primarily in connection with the TCG 7.8 H2 hydrogen engine. Although the segment registered a greater loss than in the prior year, its adjusted EBIT margin improved because of the rise in the volume of business. However, DEUTZ Green's adjusted EBIT and adjusted EBIT margin are still being shaped primarily by the development activities that are required in the segment.

In the fourth quarter of 2023, adjusted EBIT for the segment deteriorated by €5.9 million year on year to a loss of €11.5 million. This was also mainly due to the increase in development expenditure for new drive technologies.

Note: The discontinued operations of the Torqeedo Group recorded new orders of €47.4 million (2022: €52.8 million), unit sales of 36,131 drives (2022: 53,414 drives), and revenue of €41.6 million (2022: €61.3 million) in 2023. The Torqeedo Group's adjusted EBIT deteriorated from a loss of €15.9 million to a loss of €23.2 million.

The most recently forecast figure of a loss of €55 million for the Green segment's adjusted EBIT in 2023 was in relation to the Green segment including the discontinued operations. The segment's adjusted EBIT including the discontinued operations amounted to a loss of €60.3 million in 2023. This loss was larger than had been forecast because of the increase in development expenditure and the higher-than-expected loss reported by the Torqeedo Group. The corresponding adjusted EBIT margin for the Green segment thus stood at minus 129.4 percent.

[57] See quarterly statement dated November 9, 2023.
[58] Negative figure due to cancellations.

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 DEUTZ restructured its funding in the first half of 2022. This involved increasing the volume of the long-term syndicated loan from €160 million to €250 million and, at the same time, extending the term of the loan by three years to May 2, 2027. The lending arrangements for this unsecured, floating-rate loan include two one-year extension options. In June 2023, DEUTZ utilized one of these extension options, thereby extending the term to May 2, 2028.

The unused volume of the syndicated loan stood at around €95 million at the end of 2023.

During the course of 2023, DEUTZ also increased the three existing bilateral lines from €75 million to €95 million and extended them, as well as adding two further bilateral credit lines, giving it access to a total of €140 million. The five lines fall due at the end of the second quarter of 2025 and are also unsecured, floating-rate facilities. None of the five lines were drawn down as at the balance sheet date.

DEUTZ thus has sufficient financial means to be able to fund its operating business, invest in its transformation, and generate growth through acquisitions.

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

As part of its funding agreements, DEUTZ has undertaken to comply with certain financial and non-financial covenants. If, however, there is a dramatic deterioration in the general economic situation – for example because of the fallout from the coronavirus pandemic or the war in Ukraine – 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. Compliance with the financial covenants would not place any restrictions on DEUTZ's ability to pursue growth projects. See also Financial risk management, note 28, p. 211.

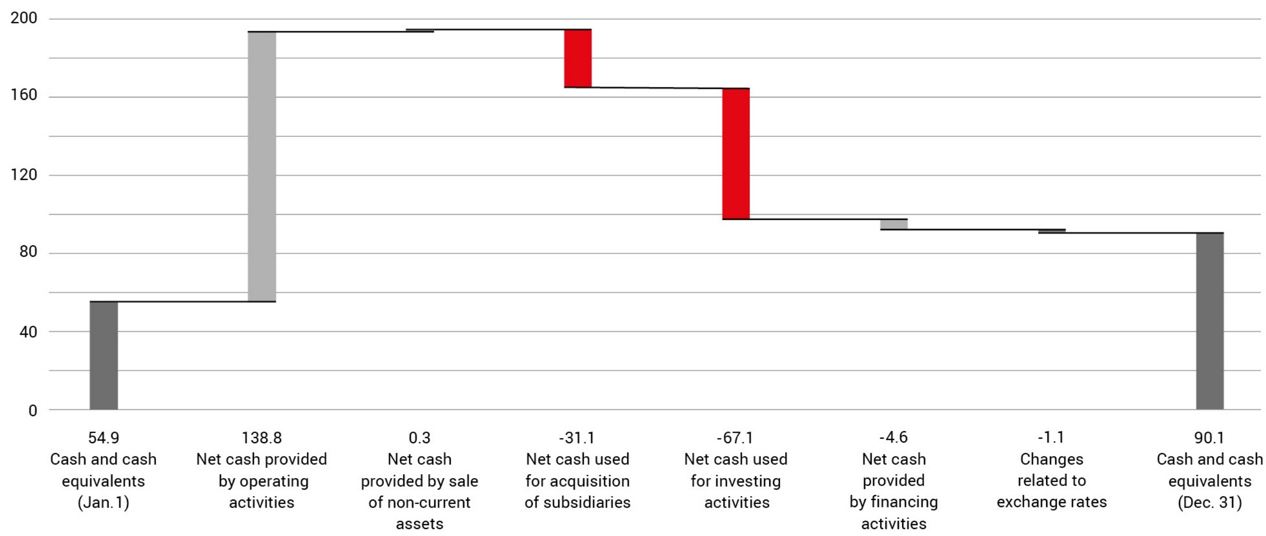
Receivables management optimized by means of factoring and systematic improvement of payment terms The sale of receivables, known as **factoring**, is an important way of optimizing receivables management. It enables DEUTZ to not only ensure sufficient liquidity but also improve its working capital, 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 €151.2 million as at December 31, 2023, which was below the level a year earlier (December 31, 2022: €171.6 million) due to the business performance.

Other financial obligations Off-balance-sheet obligations and investment obligations came to €173.1 million as at December 31, 2023. Of this total, commitments to purchase inventories amounted to €100.0 million, commitments to purchase property, plant and equipment and intangible assets totaled €62.4 million, a sum of €10.6 million was attributable to IT services, and €0.1 million was attributable to low-value leased assets. Utilization of the IT services will amount to €10.6 million in 2024; for the low-value leased assets it will be €0.1 million. Further financial obligations totaling €17.9 million are due in the period 2025 to 2028. The off-balance-sheet obligations do not have a material impact on the Group's financial position.

DEUTZ Group: Change in cash and cash equivalents for the entire Group[59]

€ million



Cash flow

Overview of the DEUTZ Group's financial position

€ million

	2023	2022	Change
Cash flow from operating activities	151.5	77.7	95.0 %
Cash flow from investing activities	-96.0	-64.9	-47.9 %
Cash flow from financing activities	-1.1	30.6	–
Change in cash and cash equivalents	**36.3**	**18.1**	**100.6 %**
Free cash flow from continuing operations[60]	**41.8**	**6.4**	**553.1 %**
Free cash flow for entire Group[61]	**24.8**	**-16.6**	**–**
Key figures for continuing operations			
Cash and cash equivalents at Dec. 31	90.1	54.2	66.2 %
Current and non-current interest-bearing financial debt at Dec. 31	253.5	210.1	20.7 %
thereof lease liabilities	81.5	85.6	-4.8 %
Net financial position at Dec. 31[62]	**-163.4**	-155.9	-4.8 %

Cash flow from operating activities attributable to continuing operations amounted to €151.5 million in 2023, which was €73.8 million higher than in the prior year. This improvement was attributable to the smaller amount of net cash used for working capital and to the rise in operating profit.

At minus €96.0 million, net cash used for investing activities was higher than in 2022. This was mainly due to the completion of the acquisitions of Diesel Motor Nordic Group, which is headquartered in Järfälla, Sweden, and Mauricio Hochschild, based in Santiago, Chile, and the associated payments. Under an alliance with Daimler Truck AG, DEUTZ has acquired license rights for engines in Daimler Truck's HDEP heavy-duty engine series. The payments for these rights are being made in installments up to 2028. The first installment was paid in the first quarter of 2023.

Cash flow from financing activities amounted to a net cash outflow of minus €1.1 million in 2023, compared with the net cash inflow of €30.6 million in 2022. This change was primarily due to lower utilization of the existing credit lines and a rise in interest expense.

[59] The change in cash and cash equivalents includes continuing and discontinued operations (including the Torqeedo Group).
[60] Cash flow from operating activities and from investing activities less interest expense.
[61] The key figures for the DEUTZ Group include continuing and discontinued operations (including Torqeedo Group).
[62] Cash and cash equivalents less current and non-current interest-bearing financial debt.

As a result of the increase in cash flow from operating activities, free cash flow improved from €6.4 million in the prior-year period to €41.8 million in the reporting period. Payments for the acquisition of subsidiaries reduced free cash flow by €31.1 million in 2023.

These changes in cash flow during 2023 increased cash and cash equivalents by €35.9 million to €90.1 million. The rise in net debt resulted from the higher level of borrowing, which was partly offset by the increase in cash and cash equivalents.

Note: The amount in the mid-double-digit millions of euros provided as guidance for free cash flow before mergers and acquisitions relates to the entire Group including discontinued operations. The figure came to €55.9 million in 2023, which corresponded to the issued guidance.[63]

Capital expenditure

Capital expenditure (after deducting investment grants)

€ million

	2023	2022	Change
Property, plant equipment	75.1	94.2	-19.1
of which right-of-use assets for leases under IFRS 16	17.1	9.0	8.1
of which property, plant and equipment (excluding right-of-use assets for leases under IFRS 16)	58.0	85.2	-27.2
Intangible assets	42.0	10.7	31.3
	117.1	**104.9**	**12.2**

Total capital expenditure (continuing operations) on property, plant and equipment and on intangible assets after deducting investment grants, and including capitalization of research and development expenditure, was above the prior-year level in 2023. The increase was mainly attributable to DEUTZ's acquisition of intellectual property rights (IP rights) from Daimler Truck AG for the latter's MDEG medium-duty engines by way of a capital increase by contribution in kind and the acquisition of license rights for engines in Daimler Truck's HDEP engine series in the total amount of €35.2 million.

Additions to property, plant and equipment mainly related to investment in IT equipment, software, assembly and testing facilities, and logistics.

The increase in capital expenditure on right-of-use assets was primarily attributable to DEUTZ entering into new long-term leases.

The Classic segment accounted for the bulk of the capital expenditure (after deducting investment grants), at €116.6 million (2022: €104.3 million). €0.5 million was invested in the Green segment (2022: €0.6 million). Total capital expenditure was 12.2 percent higher than in the prior year.

Note: The range of €70 million to €90 million for capital expenditure stated in the original forecast[64] related to the entire Group, including discontinued operations. At €119.2 million, this figure was significantly higher than the original forecast. This is because the original guidance had not yet factored in the agreement with Daimler Truck AG. Without this agreement, capital expenditure would have been at the upper end of the forecast range.

[63] See the quarterly statement dated November 9, 2023.
[64] Published in the 2022 annual report.

Net assets

DEUTZ Group: Overview of net assets

€ million

	Dec. 31, 2023	Dec. 31, 2022	Change
Non-current assets	734.7	730.3	0.6%
thereof right-of-use assets in connection with leases	70.8	87.3	-18.9%
Current assets	779.8	745.1	4.7%
Assets classified as held for sale of discontinued operations	75.7	0.0	–
Total assets	**1,590.2**	**1,475.4**	**7.8%**
Equity	743.2	668.8	11.1%
Non-current liabilities	202.9	195.8	3.6%
thereof lease liabilities	65.6	76.8	-14.6%
Current liabilities	625.1	610.8	2.3%
thereof lease liabilities	15.9	17.8	-10.7%
Liabilities associated with assets of discontinued operations	19.0	0.0	–
Total equity and liabilities	**1,590.2**	**1,475.4**	**7.8%**
Key figures for continuing operations			
Working capital (€ million)	379.8	313.8	21.0%
Working capital ratio (Dec. 31, %)	18.4	16.6	+1.8 pp
Working capital ratio (average, %)	17.7	15.6	+2.1 pp
Key figures for the entire Group[65]			
Working capital (€ million)[66]	405.7	346.3	17.2%
Working capital ratio (Dec. 31, %)[67]	19.3	17.7	+1.6 pp
Working capital ratio (average, %)[68]	18.7	16.7	+2 pp
Equity ratio %[69]	**46.7**	**45.3**	**+1.4 pp**

As already mentioned, the figures disclosed below relate to continuing operations, whereas the Torqeedo Group is presented as held for sale. As the balance sheet figures as at December 31, 2022 have not been restated, the disclosures for net assets essentially relate to transactions in the reporting year.

Assets Non-current assets stood at €734.3 million as at December 31, 2023, a year-on-year rise of €4.4 million. Under the alliance entered into with Daimler Truck AG at the end of March, DEUTZ has acquired IP rights for Daimler Truck's MDEG medium-duty engines by way of a capital increase by contribution in kind. DEUTZ has also acquired license rights for engines in Daimler Truck AG's HDEP heavy-duty engine series so that it can further develop them for use in off-highway applications. It will also market these engines itself. The payments for these rights in the HDEP engine series are being made in installments up to 2028. The first installment was paid in the first quarter of 2023.

The year-on-year rise in deferred tax assets was due to temporary differences resulting from a reduction in capitalized development expenditure that is not recognized in the tax accounts and from increased opportunities to utilize tax loss carryforwards.

The increase was partly offset by impairment losses of €18.7 million recognized on capitalized development expenditure and associated operating resources and parts of production.

The reclassification of the non-current assets of the Torqeedo Group as held for sale relates to the portion of the Green segment's goodwill that is attributable to the disposal group (€19.6 million) and also partly offset the increase in non-current assets.

Working capital The change in working capital relating to continuing operations and the change relating to the entire Group (including discontinued operations) are virtually identical as the working capital of the Torqeedo Group changed only marginally. Despite the lower level of orders on hand at the end of the fourth quarter of 2023, inventories were at the same level as they had been at December 31, 2022 owing to higher procurement prices and the expansion of business in Chile and Scandinavia. The increase of €66.0 million in working capital from continuing operations was due not only to the higher level of trade receivables resulting from the reduction in factoring as at the reporting date but also to the sharp fall in trade payables caused by the lower volume of procurement on the back of the year-on-year drop in new orders in the fourth quarter of 2023. Average working capital at the last four quarterly reporting dates was also significantly higher than in the previous year. Consequently, the average working capital ratio went up from 15.6 percent as at December 31, 2022 to 17.7 percent as at the reporting date.

Additional information: The average working capital ratio for the entire Group stood at 18.7 percent as at December 31, 2023, which was only slightly higher than the original forecast range[70] of between 16 percent and 18 percent.

[65] The key figures for the DEUTZ Group include continuing and discontinued operations (including the Torqeedo Group).
[66] Inventories plus trade receivables less trade payables.
[67] Working capital (inventories plus trade receivables less trade payables) as at the balance sheet date divided by revenue for the previous twelve months.
[68] Average working capital at the four quarterly reporting dates divided by revenue for the previous twelve months.
[69] Equity/total equity and liabilities.
[70] See the original guidance published in the 2022 annual report.

Equity As a result of the rise in equity, the equity ratio advanced to 46.7 percent as at December 31, 2023 (December 31, 2022: 45.3 percent). The growth of equity was attributable to the favorable earnings situation and the acquisition from Daimler Truck AG of the IP rights relating to the technology in its MDEG medium-duty engines. The acquisition was carried out by way of a capital increase from authorized capital by contribution in kind and grants Daimler Truck AG 5,285,412 new, no-par-value bearer shares in DEUTZ AG with a notional par value (rounded) of €2.56 each at a total issue price of €13.5 million. The difference of €11.5 million between the total issue price and the value of the MDEG contribution in kind was allocated to additional paid-in capital. The equity ratio thus remains above the target figure of more than 40 percent.[71]

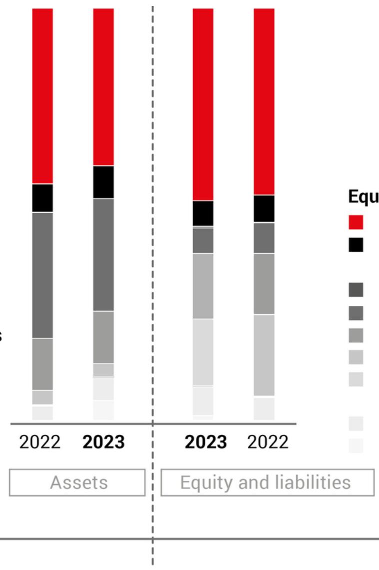
Liabilities As mentioned above, the payments for the rights for the HDEP series are being made in installments up to 2028. This led to an increase in non-current liabilities. The reclassification of non-current lease liabilities of the Torqeedo Group in accordance with IFRS 5 had a countervailing impact. The rise in current liabilities was mainly attributable to the increase in liabilities to banks resulting from the higher drawdown of short-term lines of credit. By contrast, there was a reduction in trade payables.

DEUTZ Group: Balance sheet structure

% (prior-year-figures)

Assets

38.2	(42.6)	Non-current assets
8.0	(6.9)	Deferred tax assets
27.3	(30.6)	Inventories
12.7	(12.6)	Trade receivables
3.1	(3.5)	Other receivables and assets
0.2	(0.1)	Receivables in respect of tax refunds
5.7	(3.7)	Cash and cash equivalents
4.8	(0.0)	Assets classified as held for sale of discontinued operations



Equity and liabilities

46.7	(45.3)	Equity
6.2	(6.6)	Provisions for pensions and other post-retirement benefits
0.4	(0.1)	Deferred tax liabilities
6.2	(7.5)	Other provisions
15.9	(14.8)	Financial debt
16.1	(19.8)	Trade payables
0.4	(0.3)	Liabilities arising from income taxes
6.9	(5.6)	Other liabilities
1.2	(0.0)	Liabilities directly associated with assets of discontinued operations

[71] See the original guidance in the 2022 annual report.

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 47 companies (2022: 44 companies). DEUTZ AG is also by far the largest production company of the DEUTZ Group and provides the head-office functions for the Group. See list of shareholdings, p. 233 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 Business performance in the DEUTZ Group, p. 51 onward, for further information.

Because of the significance of DEUTZ AG within the Group, and its heavy interdependencies with other Group companies, the Group is managed at the level of DEUTZ AG. In addition to the key performance indicators used for management at Group level, the net income of DEUTZ AG – the relevant variable for 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 Internal control system, p. 40 onward, for further information.

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

RESULTS OF OPERATIONS

DEUTZ AG: Reconciliation

€ million	
DEUTZ Group net income (IFRS)	**81.9**
Consolidation of equity investments	4.2
DEUTZ AG net income (IFRS)	**77.7**
Material differences due to different financial reporting standards	
Recognition of development expenditure	8.0
Recognition of leases	2.6
Measurement of provisions for pensions and other post-retirement benefits	-6.3
Measurement of investments	-3.3
Measurement of inventories	-1.6
Other differences relating to the financial reporting standards	0.1
DEUTZ AG net income (HGB)	**77.2**

Overview of DEUTZ AG's results of operations

€ million	2023	2022[72]	Change
Revenue	**1,721.1**	**1,667.8**	**53.3**
Cost of sales	-1,433.3	-1,414.2	19.1
Research and development costs	-107.7	-78.1	29.6
Selling and administrative expenses	-118.7	-96.4	22.3
Other operating income	36.1	48.7	-12.6
Other operating expenses	-21.7	-25.4	-3.7
Net investment income	1.1	-3.8	4.9
Write-downs of investments	-4.2	-24.5	-20.3
Operating profit (EBIT)	**72.7**	**74.1**	**-1.4**
Interest expenses, net	-5.9	-1.6	-4.3
Income taxes	11.0	1.8	9.2
Other taxes	-0.6	-0.5	0.1
Net income	**77.2**	**73.8**	**3.4**

Revenue DEUTZ AG's revenue increased by 3.2 percent to €1,721.1 million in 2023. This improvement was driven by the **Material Handling** application segment (up by 30.9 percent to €373.2 million) and the high-margin service business (up by 1.6 percent to €333.4 million). By contrast, revenue declined slightly in other application segments including Construction Equipment (down by 3.6 percent to €539.5 million), Agricultural Machinery (down by 2.2 percent to €261.5 million), Stationary Equipment (down by 0.7 percent to €152.8 million), and Miscellaneous (down by 17.8 percent to €60.7 million). In the regional breakdown, revenue grew in the Americas (up by 10.0 percent to €333.4 million) and in the EMEA region (up by 6.2 percent to €1,153.5 million), while revenue in the Asia-Pacific region went down by 16.2 percent to €234.2 million.

[72] As of 2023, amortization of capitalized development expenditure is no longer reported under »Research and development costs« but under »Cost of sales«. The previous year's figure in the results of operations has been adjusted accordingly to enable comparison.

Earnings performance DEUTZ AG reported an operating profit (EBIT) of €72.7 million in 2023. A substantial increase in business volume and a corresponding rise in the gross margin were countered, in particular, by higher research and development costs and selling and administrative expenses. Moreover, other operating income diminished noticeably. In 2023, write-downs of investments amounting to €4.2 million were recognized in respect of investments in Futavis GmbH, Oberpfaffenhofen/Weßling, and Kirkwell Ltd. (South Coast Diesels), Kildare, Ireland, and in respect of the loan to the subsidiary DEUTZ Corporation, Atlanta, USA. The write-down of the loan as at December 31, 2023 is due to the currency translation of this long-term loan denominated in US dollars.

Cost of sales DEUTZ AG's cost of sales came to €1,433.3 million in 2023. The year-on-year increase was mainly attributable to the volume-related rise in the cost of materials and staff costs. The gross margin[73] improved significantly from 15.2 percent to 16.7 percent, mainly thanks to economies of scale and greater success in asserting higher prices.

Research and development costs In 2023, research and development costs amounted to €107.7 million. They largely comprised staff costs, the cost of materials, and impairment losses on capitalized development expenditure, from which investment grants received and capitalized development expenditure were deducted. The impairment losses on capitalized development expenditure and the increase in development activities for new drive systems in the Green segment are the main reasons for an increase of €29.6 million on 2022. For the most part, the impairment losses on capitalized development expenditure resulted from changes to demand forecasts.

Selling and administrative expenses The growth of selling and administrative expenses was primarily attributable to higher expenses for consultancy and advisory services and an increase in staff costs.

Other operating income Other operating income fell by €12.6 million year on year. This was largely due to lower foreign currency gains.

Other operating expenses Other operating expenses decreased by €3.7 million year on year. Foreign currency losses diminished while additions to provisions for pensions and other post-retirement benefits increased in some cases. The prior-year amount still includes negative currency effects of €6.2 million resulting from the translation of the long-term loan issued in US dollars to the subsidiary Deutz Corporation, Atlanta, USA. In 2023, these negative currency effects amounted to €3.2 million and were reported under »Write-downs of investments«.

Income taxes Tax income totaling €11.0 million was recognized in 2023. The current tax expense fell by €2.5 million to €6.7 million owing to the lower level of net income before income taxes. Deferred tax income of €17.7 million was also recognized. This income resulted primarily from the increase in deferred tax assets on loss carryforwards due to improved medium-term earnings expectations.

Net income As a result of the business performance described above, net income for 2023 amounted to €77.2 million and therefore exceeded the forecast made in the 2022 annual report 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 Financial position of the DEUTZ Group, p. 58 onward, for further information

Overview of DEUTZ AG's financial position

€ million

	2023	2022	Change
Cash flow from operating activities	101.2	101.9	-0.7
Cash flow from investing activities	-112.6	-154.1	41.5
Cash flow from financing activities	22.1	57.4	-35.3
Change in cash and cash equivalents	10.7	5.2	5.5
Free cash flow[74]	-15.4	-52.3	36.9
Cash and cash equivalents at Dec. 31	31.3	20.6	10.7

[73] Ratio of revenue less cost of sales to revenue.
[74] Cash flow from operating activities and from investing activities less net interest expense.

Liquidity Cash flow from operating activities amounted to €101.2 million in 2023 and thus remained almost on a par with the previous year. While there was a significantly higher increase in working capital, payment receipts for receivables from subsidiaries also increased. Net cash used for investing activities in 2023 was €41.5 million lower than in 2022. While capital expenditure on intangible assets and property, plant and equipment went up, expenditure on investments diminished substantially. In 2023, expenditure on investments mainly comprised a capital increase at the wholly owned subsidiary Torqeedo GmbH and the acquisition of full ownership of Diesel Motor Nordic Group. The main factors affecting cash flow from financing activities, which included a dividend payment of €18.9 million, were higher interest payments due to rising market interest rates and lower drawdowns of short-term lines of credit compared with the previous year. Thanks primarily to the lower cash outflow for expenditure on investments, free cash flow improved by €36.9 million year on year.

Capital expenditure After deducting investment grants, DEUTZ AG's capital expenditure in 2023 amounted to a total of €161.0 million (2022: €155.5 million). This was broken down into €43.0 million (2022: €36.1 million) on property, plant and equipment, €42.4 million (2022: €10.2 million) on intangible assets, and €75.6 million (2022: €109.2 million) on investments. Additions to property, plant and equipment were mainly in connection with replacement investment in machinery and tools. DEUTZ AG also invested in assembly and testing equipment, IT equipment, and software.

Capital expenditure on intangible assets was focused on the cooperation with Daimler Truck in the first quarter of 2023. Under this alliance, DEUTZ AG acquired IP rights for MDEG medium-duty engines by way of a capital increase by contribution in kind. In addition, DEUTZ AG acquired license rights for engines in Daimler Truck's HDEP heavy-duty engine series. Additions to investments primarily related to a capital increase at Torqeedo GmbH and the acquisition of full ownership in Diesel Motor Nordic Group. The capital increase at Torqeedo GmbH is related to the sale of the company in the first quarter of 2024. The sale agreement was concluded in January 2024 and provides for the shares to be transferred to the new investor on a cash- and debt-free basis. As part of the capital increase, Torqeedo GmbH was provided with the necessary financial resources to repay its liabilities from financing to DEUTZ AG.

NET ASSETS

Overview of DEUTZ AG's net assets

€ million

	Dec. 31, 2023	Dec. 31, 2022	Change
Non-current assets	782.4	706.7	75.7
Current assets	494.2	499.9	-5.7
Prepaid expenses	7.7	6.1	1.6
Deferred tax assets	111.2	93.5	17.7
Excess of plan assets over post-employment benefit liability	6.2	6.0	0.2
Total assets	**1,401.7**	**1,312.2**	**89.5**
Equity	751.8	668.5	83.3
Provisions	269.0	284.7	-15.7
Liabilities	379.8	357.8	22.0
Deferred income	1.1	1.2	-0.1
Total equity and liabilities	**1,401.7**	**1,312.2**	**89.5**
Working capital (€ milion)[75]	109.4	62.4	47.0
Working capital ratio (Dec. 31, %)	6.4	3.7	+2.7 pp
Equity ratio (%)[76]	53.6	50.9	+2.7 pp

Non-current assets Compared with the end of 2022, non-current assets were up by €75.7 million. This was primarily due to expenditure on investments and intangible assets.

Current assets Current assets fell by €5.7 million year on year. Inventories and cash and cash equivalents went up while receivables due from affiliated companies declined.

Working capital Working capital stood at €109.4 million as at December 31, 2023, which was €47.0 million above the level reported a year earlier. This was primarily due to a decline in trade liabilities for reporting date-related reasons. The increase in working capital meant that the working capital ratio rose significantly to 6.4 percent as at December 31, 2023 (December 31, 2022: 3.7 percent).

[75] Inventories plus trade receivables less trade payables.
[76] Total equity/equity and debt.

Equity ratio The rise in equity in the reporting year of €83.3 million to €751.8 million was attributable to the net income generated in the reporting year and the acquisition of IP rights in MDEG engines from Daimler Truck. The acquisition was carried out by way of a capital increase from authorized capital by contribution in kind and grants Daimler Truck 5,285,412 new, no-par-value bearer shares in DEUTZ AG with a notional par value (rounded) of €2.56 each, resulting in a total issue price of €13.5 million. The difference of €11.5 million between the total issue price and the value of the MDEG contribution in kind was allocated to additional paid-in capital. The equity ratio had risen to 53.6 percent at the end of the year.

Liabilities The main reason for the increase in liabilities of €22.0 million was the rise in liabilities to banks resulting from the higher drawdown of short-term lines of credit as at the reporting date. Other liabilities also went up as a result of the acquisition of the HDEP licenses from Daimler Truck. The payments for the license rights relating to the HDEP engine series are being made in installments up to 2028. On the other hand, trade payables were lower in the reporting year for reporting date-related reasons.

Provisions The main factor influencing provisions in the reporting year was a decrease in provisions for onerous contracts in respect of orders on hand.

EMPLOYEES

DEUTZ AG employed 3,372 people as at December 31, 2023, which was 134 more than at the end of 2022. The number of temporary workers went up by 16. See Employees of the DEUTZ Group, p. 48 onward, for further information.

DEUTZ AG: Employees[77]

Headcount

	Dec. 31, 2023	Dec. 31, 2022
Cologne	2,731	2,591
Ulm	477	492
Other	164	155
Total	**3,372**	**3,238**

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 on p. 74 onward.

Because DEUTZ AG is closely integrated with the other Group companies, its risk and opportunities situation is essentially the same as that of the Group. Risks arising from subsidiaries may have an effect on DEUTZ AG because of the carrying amount of an equity investment, reduced dividend payments, and the internal business relations. The risks and opportunities for the DEUTZ Group are described in this combined management report. See Risk report of the DEUTZ Group, p. 74 onward, for further information.

Information about DEUTZ AG's internal accounting-related control system and about risk management with regard to the use of financial instruments at DEUTZ AG can be found in the combined management report. See siehe Internal control system, p. 40 onward, for further information.

OUTLOOK

DEUTZ AG performs the head-office functions of the DEUTZ Group and is the biggest production company within the Group by some margin. Because of DEUTZ AG's wide-ranging relationships with other Group companies and because of its size within the Group, the expectations presented in the Group outlook for 2023 are essentially the same as those for DEUTZ AG. It is therefore likely that the revenue of DEUTZ AG will develop largely in line with the statements made for the DEUTZ Group. In 2024, net income is expected to be in the mid to high double-digit millions of euros and therefore similar to the level of net income achieved in 2023. See Outlook for the DEUTZ Group for 2024, p. 85 onward, for further information.

For information about events after the reporting period, please see Note 32 on p. 224 onward of the notes to the consolidated financial statements.

[77] Figures for the number of employees in this section are expressed as FTEs (full-time equivalents).

Overall assessment for 2023

Target/actual comparison for 2023 [78]

DEUTZ Group	Actual 2022	Original guidance 2023 [79]	Adjustment of the guidance in November 2023 [80]	Actual 2023	Actual 2023 excl. Torqeedo Group [81]
Unit sales of DEUTZ engines [82]	181.286	175,000 to 195,000	185,000 to 190,000	**187.116**	187.116
Revenue	€1.95 billion	€1.9 billion to €2.1 billion	approx. €2.1 billion	**€2.10 billion**	€2,063.2 million
	€1.89 billion	*thereof DEUTZ Classic: €1.8 billion to €2.0 billion*		*€2.06 billion*	*€2,058.2 million*
	€64.0 million	*thereof DEUTZ Green: €60 million to €100 million*		*€46.6 million*	*€5.0 million*
EBIT margin (before exceptional items)	4.6%	4.0% to 5.0%	5.3% to 5.8%	5.7%	7.0%
	6.8%	*thereof DEUTZ Classic: 6.0% to 7.0%*	*8.0% to 8.5%*	*8.8%*	*8.8%*
	-61.3%	*thereof DEUTZ Green: -40% to -30%*	*not provided*	*-129.4%*	*-742.0%*
EBIT (before exceptional items), DEUTZ Green	-€39.2 million	–	-€55 million	-€60.3 million	-€37.1 million
ROCE (before exceptional items)	9.0%	High single-digit percentage	–	**11.1%**	14.4%
R&D expenditure (after deducting grants) [83]	€90.8 million	€100 million to €120 million	–	**€103.9 million**	€97.9 million
Capital expenditure (after deducting grants) [84,85]	€116.9 million	€70 million to €90 million	–	**€119.2 million**	€117.1 million
Free cash flow (before mergers and acquisitions) [86]	-€16.6 million	Mid-double-digit million-euro amount	–	€55.9 million	€72.9 million
Average working capital ratio [87]	16.7%	16% to 18%	–	**18.7%**	17.7%
Equity ratio [88]	45.3%	Well above 40%	–	**46.7%**	46.7%

DEUTZ AG	Actual 2022	Original guidance 2023 [89]	Adjustment of the guidance in November 2023	Actual 2023	Actual 2023 excl. Torqeedo Group
Net income	€73.8 million	Mid-double-digit million-euro amount	–	**€77.2 million**	€77.2 million

Geopolitical unrest had a huge impact on 2023, just as it had done in the prior year. This was due to the war in Ukraine and, particularly toward the end of 2023, the escalation of the Middle East crisis. The flow of goods and procurement costs were significantly affected as a result, although falling energy prices did precipitate a sharp fall in inflation. The relevant costs were still well above pre-pandemic levels, however. Despite the associated adverse impact on the business and economic uncertainties, DEUTZ largely achieved the targets for 2023 that it had initially communicated in the 2022 annual financial statements in March and then refined in the quarterly statement in November covering the first nine months of the year.

As the Group guidance related to the entire Group including the Torqeedo Group in all cases, this section (unlike the previous sections) makes reference to the Group including the discontinued operations. Proper comparability between the guidance and target achievement would otherwise not be possible.

At 187,116, unit sales of DEUTZ engines were within the target range of 185,000 to 190,000 that had been published on November 9, 2023. Reflecting the growth in unit sales and thanks to market-oriented price adjustments, consolidated revenue increased by 7.8 percent to €2,104.8 million in 2023, which was slightly higher than the forecast of €2.1 billion. The adjusted EBIT margin for the Group came to 5.7 percent and was therefore within the most recent forecast range of between 5.3 percent and 5.8 percent. This reflected the positive impact not only of the increase in revenue but also of the measures to boost efficiency and profitability, the enhanced product mix, and the high proportion of earnings generated by the high-margin service business.

[78] Relates to the entire Group including discontinued operations.
[79] Published in the 2022 annual report.
[80] See the quarterly statement dated November 9, 2023.
[81] I.e. relates to continuing operations only.
[82] Excluding electric boat drives from DEUTZ subsidiary Torqeedo.Excluding electric boat drives from DEUTZ subsidiary Torqeedo.
[83] After deducting grants from development partners and subsidies.
[84] Capital expenditure on property, plant and equipment (including right-of-use assets in connection with leases) and intangible assets.
[85] After deducting grants from development partners and subsidies.After deducting grants from development partners and subsidies.
[86] Cash flow from operating activities and from investing activities less interest expense.
[87] Average working capital at the four quarterly reporting dates divided by revenue for the previous twelve months.
[88] Equity divided by total equity and liabilities.
[89] Published in the 2022 annual report.

In terms of individual segments, the Classic segment’s revenue was above our expectations at €2,058.2 million. The segment’s adjusted EBIT margin of 8.8 percent also exceeded the guidance provided in November 2023, which was for a figure of between 8.0 percent and 8.5 percent. By contrast, the Green segment’s revenue of €46.6 million fell short of the target range. Adjusted EBIT for the segment came to a loss of €60.3 million and the adjusted EBIT margin stood at minus 129.4 percent, both of which were well below the comparative figures for the prior year (2022: loss of €39.2 million and minus 61.3 per cent). The Green segment also failed to achieve the updated guidance for adjusted EBIT from November 2023, which was for a loss of around €55 million. This was because of increased development expenditure and higher losses at Torqeedo.

Free cash flow excluding M&A expenditure amounted to €55.9 million, which was in line with the guidance. DEUTZ was working on the basis that free cash flow excluding M&A expenditure would increase from €21.6 million in 2022 to a mid-double-digit million euro amount due to the generally positive operating performance. At 11.1 percent, ROCE before exceptional items exceeded both the guidance (high single-digit percentage figure) and the prior-year figure of 9.0 percent. This was also the case for the equity ratio, which at 46.7 percent was once again well above the target of 40 percent.

At 18.7 percent, the average working capital ratio was above the original forecast range. R&D expenditure came to €103.9 million, which was higher than the prior-year figure, in line with expectations. Capital expenditure after deducting grants stood at €119.2 million, thus reaching a level that significantly exceeded the forecast range. This is because the original guidance had not yet factored in the agreement with Daimler Truck AG, which resulted in capital expenditure of €35.2 million, because it was not known at the time. Without this agreement, capital expenditure would have been at the upper end in the middle of the forecast range.

Taking into account the geopolitical and economic uncertainties and adverse impacts on the business, the DEUTZ Board of Management regards the performance in 2023 as solid and broadly positive both on the operational front and in terms of the improvements in the balance sheet and in key financial metrics such as cash flow.

Non-financial report pursuant to sections 289 b and 315 b 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 92 onward of the annual report and to our website www.deutz.com/nfb2023/en.

Corporate governance declaration and corporate governance report[90]

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 20 onward of the annual report and to www.deutz.com/ezu2023/en.

Disclosures pursuant to sections 289 a and 315 a HGB

Composition of the issued capital The issued capital (share capital) of DEUTZ AG changed as follows in 2023. Following the transaction with Daimler Truck AG, the share capital amounted to €322,490,183.20 as at the end of 2023 and was divided into 126,147,195 no-par-value bearer shares. As at December 31, 2022, the share capital had amounted to €308,978,241.98 and had been divided into 120,861,783 no-par-value bearer shares.

Restrictions affecting voting rights or the transfer of shares DEUTZ AG is 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 Up to December 31, 2023, DEUTZ AG had not been notified of any 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 The appointment and removal of members of the Board of Management are governed by sections 84 and 85 of the German Stock Corporation Act (AktG) and section 31 of the German Codetermination Act (MitbestG). Pursuant to section 84 (1) AktG, members of the Board of Management are appointed by the Supervisory Board for a maximum term of five years. In accordance with the **German Corporate Governance Code** (DCGK), the initial appointment is for just three years. Reappointment or extension is permitted, in each case for a maximum of five years. Section 84 (3) AktG provides that a member of the Board of Management has the right to request that the Supervisory Board revoke their appointment if they are temporarily unable to discharge their duties due to maternity or parental leave, care for a family member, or illness. In accordance with section 84 (3) AktG, the Supervisory Board must revoke the appointment of this member of the Board of Management and commit to reappointing them. The Supervisory Board may revoke the appointment of a member of the Board of Management pursuant to section 84 AktG for cause. Section 31 MitbestG, which applies as DEUTZ AG falls within the scope of the Act, regulates the majority of votes required to appoint or remove members of the Board of Management and the procedure in the Supervisory Board.

Articles 7 (1) and 7 (2) of the Statutes of DEUTZ AG contain supplementary provisions, as follows:

»(1) The Board of Management comprises 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.«

If the Board of Management does not have all the required members, the court shall, in urgent cases, make the necessary appointments at the request of a party involved (section 85 AktG).

Under section 179 AktG, a resolution of the Annual General Meeting is required for any amendment of the Statutes. The resolution of the Annual General Meeting requires a majority of not less than three-quarters of the share capital represented at the passing of the resolution. The Statutes may provide for a different capital majority; however, for any change to the objects clause, only a larger majority. The Statutes of DEUTZ AG exercise this right to deviate in article 20 (1), which states: »The Annual General Meeting shall always adopt resolutions in accordance with the majority of the yes or no votes cast and, so far as a majority of the share capital is required, by simple majority of the share capital, unless otherwise stipulated by law or the Statutes.«

Where an amendment relates only to the wording and not the spirit of the Statutes, the Annual General Meeting may delegate the authority to make amendments to the Supervisory Board pursuant to section 179 AktG. The Company has made use of this right in article 14 of the Statutes of DEUTZ AG, which states:

»The Supervisory Board may change the wording but not the spirit of the Statutes.«

Authority of the Board of Management, in particular with regard to share issue or buyback
Authorized Capital 2023/I

Pursuant to article 4 (2) of the Statutes of DEUTZ AG, the Board of Management is authorized, subject to the consent of the Supervisory Board, to increase the share capital of the Company on or before April 26, 2028 on one or more occasions in installments through the issue of up to 24,172,356 (in words: twenty-four million, one hundred and seventy-two thousand, three hundred and fifty-six) new no-par-value bearer shares for cash by up to a total amount of €61,795,646.86 (in words: sixty-one million, seven hundred and ninety-five thousand, six hundred and forty-six euros and eighty-six cents) (authorized capital 2023/I).

[90] Not audited.

The issue of new shares on the basis of this authorization is permitted only if – taking account of other shares to be included – the total of the new shares does not exceed 40 percent of the share capital. This limit is determined by the share capital of the Company at the time this authorization takes effect or – if lower – at the time this authorization is utilized. Included in the aforementioned 40 percent limit are (i) shares that have previously been or are simultaneously being sold or issued during the term of this authorization on the basis of other authorizations; also to be included are (ii) shares that are being or must be issued in order to service bonds with conversion rights, option rights, or conversion or option obligations in so far as these bonds have previously been or are simultaneously being issued by the Company or a direct or indirect majority shareholding of the Company during the term of this authorization on the basis of an appropriate authorization.

Pre-emption rights must be granted to existing shareholders. The new shares may also be transferred to banks, securities institutions, or 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), institution(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 pre-emption rights where necessary for fractional amounts arising on the calculation of pre-emption rights.

The total of the shares issued with the disapplication of pre-emption rights and in accordance with this authorization must not exceed 10 percent of the share capital. This limit is determined by the share capital of the Company at the time this authorization takes effect or – if lower – at the time this authorization is utilized. Included in the aforementioned 10 percent limit are (i) shares that have previously been or are simultaneously being sold or issued (with the disapplication of pre-emption rights) during the term of this authorization on the basis of other authorizations; also to be included are (ii) shares that are being or must be issued in order to service bonds with conversion rights, option rights, or conversion or option obligations in so far as these bonds have previously been or are simultaneously being issued (with the disapplication of pre-emption rights) by the Company or a direct or indirect majority shareholding of the Company during the term of this authorization on the basis of an appropriate authorization.

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 2023/I.

The Supervisory Board is authorized to amend the wording of the Statutes after a share capital increase has been carried out in full or in part by exercising authorized capital 2023/I and after the authorization period has ended.

Authorized Capital 2023/II

Pursuant to article 4 (3) of the Statutes of DEUTZ AG, the Board of Management is authorized, subject to the consent of the Supervisory Board, to increase the share capital of the Company on or before April 26, 2028 on one or more occasions in installments through the issue of up to 24,172,356 (in words: twenty-four million, one hundred and seventy-two thousand, three hundred and fifty-six) new no-par-value bearer shares for cash by up to a total amount of €61,795,646.86 (in words: sixty-one million, seven hundred and ninety-five thousand, six hundred and forty-six euros and eighty-six cents) (authorized capital 2023/II).

The issue of new shares on the basis of this authorization is permitted only if – taking account of other shares to be included – the total of the new shares does not exceed 40 percent of the share capital. This limit is determined by the share capital of the Company at the time this authorization takes effect or – if lower – at the time this authorization is utilized. Included in the aforementioned 40 percent limit are (i) shares that have previously been or are simultaneously being sold or issued during the term of this authorization on the basis of other authorizations; also to be included are (ii) shares that are being or must be issued in order to service bonds with conversion rights, option rights, or conversion or option obligations in so far as these bonds have previously been or are simultaneously being issued by the Company or a direct or indirect majority shareholding of the Company during the term of this authorization on the basis of an appropriate authorization.

Pre-emption rights must be granted to existing shareholders. The new shares may also be transferred to banks, securities institutions, or 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), institution(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) where necessary for fractional amounts arising from the calculation of pre-emption rights;

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 issued under the authorized capital 2023/II;

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. The total of the shares issued for cash with the disapplication of pre-emption rights and in accordance with this clause c) must not exceed 10 percent of the share capital. This limit is determined by the share capital of the Company at the time this authorization takes effect or – if lower – at the time this authorization is utilized. The aforementioned 10 percent limit includes shares that have previously been or are simultaneously being sold or issued (with the disapplication of pre-emption rights) 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). This restriction also includes shares that are being or must be issued in order to service bonds with conversion rights, option rights, or conversion or option obligations in so far as these bonds have previously been or are simultaneously being issued (with the disapplication of pre-emption rights) by the Company or a direct or indirect majority shareholding of the Company during the term of this authorization in application, with the necessary modifications, of section 186 (3) sentence 4 AktG.

d) where necessary in order to grant holders or creditors of option and/or conversion rights or of corresponding option and/or conversion obligations arising from warrant-linked bonds and/or convertible bonds and/or profit-sharing rights (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 conversion or 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 of the shares issued with the disapplication of pre-emption rights and in accordance with this authorization must not exceed 10 percent of the share capital. This limit is determined by the share capital of the Company at the time this authorization takes effect or – if lower – at the time this authorization is utilized. Included in the aforementioned 10 percent limit are (i) shares that have previously been or are simultaneously being sold or issued (with the disapplication of pre-emption rights) during the term of this authorization on the basis of other authorizations; also to be included are (ii) shares that are being or must be issued in order to service bonds with conversion rights, option rights, or conversion or option obligations in so far as these bonds have previously been or are simultaneously being issued (with the disapplication of pre-emption rights) by the Company or a direct or indirect majority shareholding of the Company during the term of this authorization on the basis of an appropriate authorization.

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 2023/II.

The Supervisory Board is authorized to amend the wording of the Statutes after a share capital increase has been carried out in full or in part by exercising authorized capital 2023/II and after the authorization period has ended.

Authorization to issue convertible bonds and/or warrant-linked bonds / conditional capital 2023

On April 27, 2023, the Board of Management was authorized by the Annual General Meeting, subject to the consent of the Supervisory Board, to issue bearer and/or registered convertible bonds or warrant-linked bonds (together referred to as »bonds«) on one or more occasions until April 26, 2028 up to a cumulative principal value of €100,000,000 with or without a limited maturity term and to grant the holders/creditors of bonds conversion or option rights to obtain new no-par-value bearer shares of the Company with a value of up to €61,795,646.86 of the share capital (rounded, this equates to 20 percent of the Company's existing share capital at the time at which the notice of the Annual General Meeting was submitted to the Federal Gazette) in accordance with the detailed terms and conditions of these bonds. Bonds may be issued in return for cash or non-cash contributions.

The bond or warrant terms and conditions may also provide for a conditional or unconditional obligation to convert the bonds or exercise the option on maturity or at an earlier date or when a specific event occurs.

The creation of conversion rights and/or option rights or obligations on the basis of the authorization is permitted only if – taking account of other shares to be included – the conversion and/or option rights or obligations created do not in total exceed 40 percent of the share capital. This limit is determined by the share capital of the Company at the time the authorization takes effect or – if lower – at the time this authorization is utilized. Included in the aforementioned 40 percent limit are (i) shares that have previously been or are simultaneously being sold or issued during the term of this authorization on the basis of other authorizations; also to be included are (ii) shares that are being or must be issued in order to service bonds with conversion rights, option rights, or conversion or option obligations in so far as these bonds have previously been or are simultaneously being issued by the Company or a direct or indirect majority shareholding of the Company during the term of this authorization on the basis of an appropriate authorization.

Existing shareholders generally have pre-emption rights. The bonds may also be transferred to banks, securities institutions, or 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), securities institution(s), or company to offer the shares to existing shareholders (indirect pre-emption right). The Board of Management is authorized – subject to the consent of the Supervisory Board – under certain conditions and within defined limits to disapply the pre-emption right of existing shareholders, including in the case of issuance against non-cash contributions and cash payments, unless the issue price of the bonds is substantially below the hypothetical market price.

Any issuance of bonds in disapplication of the pre-emption right as set out in this authorization is permitted only if the value of the new shares to be issued upon conversion of such a bond or conversion and/or option rights or obligations, expressed as a proportion of the Company's share capital, does not exceed 10 percent of the share capital. This limit is determined by the share capital of the Company at the time this authorization takes effect or – if lower – at the time this authorization is utilized. Included in this 10 percent limit are (i) shares that have previously been or are simultaneously being sold or issued during the term of this authorization on the basis of another authorization where pre-emption rights are disapplied; also to be included are (ii) shares that are being or must be issued in order to service bonds with conversion rights, option rights, or conversion or option obligations in so far as these bonds have previously been or are simultaneously being issued by the Company or a direct or indirect majority shareholding of the Company during the term of this authorization on the basis of an appropriate authorization.

Pursuant to article 4 (4) of the Statutes of DEUTZ AG, the share capital is conditionally increased by up to €61,795,646.86 by issuing up to 24,172,356 new shares. The conditional capital will only be increased to the extent to which the holders of convertible bonds or of warrants from warrant-linked bonds that are issued by the Company or a subsidiary on or before April 26, 2028 on the basis of the authorization granted to the Board of Management by the Annual General Meeting on April 27, 2023 exercise their conversion/option rights or – if they have a conversion obligation or an obligation to exercise the option – fulfill such obligation, and provided that no other means are used to satisfy such rights and/or obligations. The new shares shall be issued at the conversion or option exercise prices to be determined in each case in accordance with the aforementioned authorization resolution as set out in the bond/warrant terms and conditions (conditional capital 2023). The shares issued on the basis of this provision entitle their holders to a share of the Company's profits from the beginning of the financial year in which they are created. The Board of Management is authorized, subject to the consent of the Supervisory Board, to decide on the finer details for implementing the conditional capital increase.

Authorization to purchase and use treasury shares pursuant to section 71 (1) no. 8 AktG and to disapply pre-emption rights and rights to tender shares, and to retire treasury shares

The Board of Management was authorized by the Annual General Meeting on April 27, 2023, subject to the consent of the Supervisory Board, to purchase treasury shares on or before April 26, 2028 in an amount equating to up to a total of 10 percent of the Company's share capital in existence when the resolution is adopted or – if lower – of the Company's share capital in existence at the time the authorization is exercised. The shares purchased on the basis of this authorization, together with other treasury shares that the Company has already purchased and still holds or which are attributable to the Company pursuant to sections 71a et seq. AktG must at no time account for more than 10 percent of the Company's share capital.

The Board of Management was authorized, with the consent of the Supervisory Board, to use the treasury shares purchased on the basis of this authorization:

They may be sold via the stock market or by means of a public offer to all shareholders upholding the principle of equal treatment (section 53a AktG).

They may also be sold by other means than via the stock market or a public offer to all shareholders, if they are sold for cash at a price that is not more than 5 percent below the average (arithmetic mean) of the closing prices of the shares in **Xetra** trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last three trading days before the obligation to sell the shares is entered into. The shareholders' pre-emption right to the purchased treasury shares is thereby disapplied. The total value of the treasury shares sold under disapplication of pre-emption rights must not exceed 10 percent of the share capital, whether based on the value of the share capital at the time this authorization comes into effect or the value at the time the authorization is utilized. Included in this 10 percent limit are (i) shares that have previously been or are simultaneously being sold or issued during the term of this authorization on the basis of another authorization where pre-emption rights are disapplied; also to be included are (ii) shares that are being or must be issued in order to service bonds with conversion rights, option rights, or conversion or option obligations in so far as these bonds have previously been or are simultaneously being issued by the Company or a direct or indirect majority shareholding of the Company during the term of this authorization on the basis of an appropriate authorization.

The purchased treasury shares can also be retired without the need for the Annual General Meeting to adopt a further resolution on the retirement or its implementation. No-par-value shares may be retired with or without a capital reduction. If the no-par-value shares are retired without a capital reduction, the other shares will make up a larger proportion of the share capital in accordance with section 8 (3) AktG. In this case, the Board of Management alone is authorized to amend the number of shares of the Company that is set out in the Statutes (section 237 (3) no. 3 AktG).

Further disclosures

No bearers of shares have any special rights conferring authority to control the Company. Numerous employees have direct shareholdings in DEUTZ AG. DEUTZ AG is not aware of any 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 €250 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. This condition also applies in respect of a bilateral line of €25 million. Further bilateral credit agreements covering a sum of €115 million stipulate 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. 159 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 289 a and 315 a 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.

Risk report

Across the world, the political, economic, and regulatory conditions in the individual markets are in a constant state of rapid change. Companies must be able to act quickly and react even more quickly if they are to ensure their long-term survival. 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.

The DEUTZ Group's 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. In the face of increasingly complex corporate structures and growing internationalization, it is essential to identify and assess risks to the business 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.

Risk management system

The basic principles, monitoring standards, personnel responsibilities, functions, and procedures in the financial 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 material financial risks are documented and communicated, and that appropriate corrective action is taken and documented at an early stage. The risk management system heightens employees' sense of responsibility and raises their awareness of potential or existing risks. Policies and specific procedures are drawn up to help everyone involved to identify, analyze, and communicate risks in good time and initiate effective corrective action.

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 material affiliated companies to identify whether new risks have emerged or existing risks have changed relative to those in the Company's current 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.

Tail risks are 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. A risk-bearing capacity statement focused on the Company's equity and liquidity is also shown to the Board of Management on an ad hoc basis, but at least every quarter.

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 then promptly notifies 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 ideally also 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 Group's overarching risk management strategy is designed to mitigate potentially negative effects on financial position and financial performance. The management and early identification of financial risks is based on annual financial planning, together with updates and regular analyses of variances during 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 earnings and cash flows caused by volatility in interest rates, exchange rates, and prices for raw materials. 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 DEUTZ protects itself against the risk of bad debts by continually monitoring its 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. It also conducts creditworthiness checks on new customers and monitors existing credit limits on an ongoing basis.

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 the medium-term balance sheet planning and profit planning. If, however, there is a dramatic deterioration in the general economic situation – for example because of pandemics or unexpectedly severe escalations in geopolitical crises (e.g. Taiwan, Ukraine, Middle East) – there is a risk of the covenants being breached in the short term. Should such a risk materialize, DEUTZ would approach its 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. In the event of a liquidity crunch, additional lines of credit would be negotiated or **factoring** would be extended. See also Financial risk management, note 26, p. 211 onward. In addition, two **ESG** performance indicators (improvement in **RIR**, reduction in CO2 emissions) derived from the sustainability strategy must also be taken into account in the financing agreements. In accordance with the measures already planned, the Company expects to achieve the forecast improvement in these indicators over the term of the financing. However, there is a risk that this improvement will not be achieved. In this case, the interest on the loan would increase slightly.

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. A »best case«, »mid case«, and »worst case« are 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 (%)	low (€0.5-10 million)	moderate (> €10 million)	significant (> €25 million)	critical (> €50 million)	very critical (> €75 million)
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

RISKS

As with the internal risk reporting, the following presentation of the current risk situation is focused on the risk factors that are relevant to the DEUTZ Group's financial position and financial performance. These risk factors consist of the risks that were categorized as »low« or higher before taking into account any measures to counter that risk. 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 2024, weighted by probability, that remains after existing and effective measures and checks have been carried out.

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

MARKET RISK

Geopolitical events, growing trade disputes, the emergence of new competitors, and pandemics can all influence the macroeconomic environment and its prevailing trends, particularly with regard to interest-rate changes and inflation. In this context, there is a risk that price increases on the purchasing side, which may arise as a result of inflation, cannot be passed on to customers. Given that DEUTZ operates in international sales markets, the aforementioned developments and events could have a negative impact on the financial position and financial performance of the Group. As well as having a direct effect on unit sales and revenue, this may also impact negatively on the value of assets on the balance sheet. DEUTZ operates in very cyclical markets in the Construction Equipment and **Material Handling** application segments, which are the strongest drivers of revenue, and in the principal sales regions of Germany, western Europe, China and North America. The objective is to mitigate this cyclicality from a regional and application segment perspective in order to further reduce its negative impact on business performance.

In the medium and long term, DEUTZ seeks to mitigate regional and application-related sales risks by aligning development activities with the product strategy and by entering into long-term supply agreements. It therefore pursues a strategy of continually signing up new customers across all regions and progressively expanding business with them.

DEUTZ is very well diversified and well positioned for the future in terms of the geographical and sectoral distribution of its customers. Furthermore, it supplies the market-leading manufacturers in the various application segments. It actively manages orders, inventories, and stock levels in order to respond to volatility in the markets.

Looking ahead to 2024, DEUTZ expects economic uncertainties to persist, which could have a negative impact on customer demand, particularly in the Classic segment. On the customer side, there is also a risk that price increases will not be implemented as planned. This risk is countered by a differentiated pricing strategy.

Despite the countermeasures taken, it is impossible to completely control external risks. In view of the measures in place, DEUTZ categorizes the level of market risk with regard to the attainment of its targets as »moderate« in 2024 (2023: »moderate«).

STRATEGIC RISK

Based on the objective of broadening the customer and product base, the DEUTZ Group's strategy mainly focuses on expanding and developing its portfolio of alternative drives as part of a technology-neutral approach, continually growing the service business and, at the same time, unlocking potential for growth in the classic engine business. See also Strategy and objectives, p. 37 onward.

In pursuit of its overarching objective of pioneering carbon-neutral drive systems for **off-highway** applications, DEUTZ focuses not only on electrification in the advancement of its 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 **eFuels**. See also Research and development, p. 42 onward.

The product strategy presents 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 decisions in respect of product collaborations may also impact negatively on the value of assets on the balance sheet. In addition, M&A projects and strategic partnerships carry inherent financial risks despite careful planning and analysis. These risks range from market volatility and delays to integration challenges and cost unexpectedly overrunning.

DEUTZ attempts to mitigate the aforementioned risks in various ways, such as precisely analyzing the trends in relevant markets, for which it also draws on external market research. In addition, it enters into close alliances with major customers, long-term supply agreements, and strategic development partnerships. And where appropriate, DEUTZ is continuing to expand its inhouse capabilities by making targeted acquisitions and strategic investments.

Within this context, there is the risk that strategic projects do not progress as anticipated or are delayed. They are therefore closely monitored so that DEUTZ can respond to changes immediately.

In view of the measures in place, the level of strategic risk with regard to the attainment of the financial targets continues to be categorized as »low« for 2024 (2023: also »low«).

OPERATIONAL RISKS

Procurement risk Supply shortages at suppliers may lead to delays in DEUTZ's own deliveries or even production downtime if there are no alternative sources of supply. This would adversely affect earnings.

Risks also arise in connection with the general economic and political situation and the associated paradigm shift within the automotive industry. For example, any supplier insolvencies, factory closures, or discontinuation of products could have a negative impact on the supply chain. Moreover, the DEUTZ Group's earnings could be further dented if logistics and material costs are pushed up by longer replenishment lead times for bought-in parts, by suppliers increasing prices, and by bottlenecks in freight and warehouse capacity. See also Procurement market, p. 49 onward.

DEUTZ seeks to mitigate the aforementioned risks by carrying out intensive supplier management, by continually negotiating with its suppliers, and by monitoring the market on an ongoing basis. See also Purchasing and procurement, p. 47 onward, and Production and logistics, p. 44 onward.

There are essentially three cornerstones to the DEUTZ Group's 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. DEUTZ relies on a balanced supplier network comprising both European and global suppliers. These measures minimize the procurement risks and secure the required capacity to the greatest extent possible. In the event that suppliers charge higher prices, DEUTZ has established a process to spread the burden of rising costs.

In view of the measures in place, the level of procurement risk with regard to the attainment of the financial targets continues to be categorized as »moderate« for 2024.

Production risk There is a risk that fluctuations in capacity utilization in production will have a negative impact on profitability. This may result from the cyclicality of the business model or from production downtimes or delays caused by various factors, such as external material shortages, storage capacity issues, and disruptions to the internal flow of materials.

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. Furthermore, production program meetings and capacity planning meetings are held monthly to ensure that capacity is adjusted in line with orders on hand. Where required, temporary employment contracts are increasingly being used in order to ensure greater flexibility. Projects to stabilize the internal flow of materials and potential Saturday shifts will also help to realize the planned production program.

In view of the measures in place to avoid or minimize these risks, the level of production risk with regard to the financial targets continues to be categorized 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 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.

All DEUTZ plants and all other relevant areas of the Group have local quality departments in order to ensure quality. 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 DEUTZ to handle the significant technical complexity of engines and to satisfy the steadily increasing quality requirements of customers.

DEUTZ has recognized sufficient provisions on the balance sheet to account for warranty risks. In view of the precautionary measures that have been taken, any further quality risks that could negatively impact on the financial targets continue to be categorized as »low« for 2024.

OTHER RISKS

Cyber risk DEUTZ is a technology-driven company that is heavily focused on research and development. It regards the continuing development of the engine portfolio with a focus on sustainable drive solutions as a competitive advantage that will form the basis of its 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 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 IT system outages could have a negative impact on market position and on financial position and financial performance. This is also true of potential cyberattacks and the harm resulting from such attacks, which could lead to financial loss or reputational damage.

DEUTZ has put a series of measures in place to protect against cyber risk. As well as taking out insurance against cyber risk and providing regular security training for employees, these include security measures for computer hardware and software and the management of defined IT security guidelines. In view of the precautions that have been taken, DEUTZ continues to categorize the level of cyber risk 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 therefore recorded and analyzed on an ongoing basis; they are assessed in terms of their legal and financial impact and an appropriate amount is recognized on the balance sheet in the form of risk provisions. 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 the 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 policies are refined on an ongoing basis and reduce the level of new legal risk at DEUTZ. The Legal Affairs department and external attorneys are also regularly consulted about projects and the signing 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 to either avoid or minimize risk, DEUTZ continues to categorize the level of legal risk as »low«.

OVERALL ASSESSMENT OF THE RISK SITUATION

DEUTZ uses its risk management system to identify and evaluate material risks on an ongoing basis. 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 its position in the market, DEUTZ is confident in its 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.

ASSESSMENT OF THE APPROPRIATENESS AND EFFECTIVENESS OF THE FINANCIAL RISK MANAGEMENT SYSTEM[91]

DEUTZ's financial risk management system is designed to mitigate potentially negative effects on the Company's financial position and financial performance. The management and early identification of financial risks is based on annual financial planning, together with updates and regular analyses of variances during the year.

As part of a continuous improvement process, the risk management system is adapted or further developed as required. In 2023, for example, work began on a further development of the risk management system that will see a set of integrated group-wide operational risk management processes integrated into the existing structures. The objective is to improve the base data for the quarterly reporting and to ensure that risk is managed in a uniform way at all levels of the Company.

DEUTZ regularly analyzes the appropriateness and effectiveness of its financial risk management system. The adequacy of the risk management system is manifested in a number of crucial aspects. These include a methodical risk assessment, the consistent creation of risk awareness within the Company, the involvement of all subsidiaries, a close link between the risk management system and company-wide planning, the clear definition of risk-bearing capacity, the consideration of new regulatory requirements and the systematic integration of extreme risks.

Various mechanisms are in place to ensure the effectiveness of the system. The focus is on the consistent tracking of mitigation measures, including checks to monitor their effectiveness, the clear assignment and exercise of responsibilities in risk management, and quarterly reporting.

The ongoing analysis of actual financial loss compared with the forecast risks shows that risks are identified at an early stage in the Company and that the mechanisms in place are effective. For

[91] Not audited.

this reason and the abovementioned aspects, DEUTZ regards its financial risk management system as appropriate and effective.

INTERNAL CONTROL SYSTEM[92]

DEUTZ AG has put in place a comprehensive corporate governance system with the aim of identifying, mitigating, and avoiding risks. In addition to the risk management system (RMS) described above, this consists of the Compliance Management System (CMS), Corporate Audit, and, as a key component, the internal control system (ICS). The ICS covers major process-related corporate risks and is designed to reduce them to at least a tolerable level. The ICS functions in a way that detects risks and seeks to prevent them from occurring and helps to ensure that business processes can be carried out as intended.

DEUTZ AG's internal control system has three main objectives:

- Reducing or avoiding operational risks in ICS-relevant business processes that could prevent the Company from achieving its objectives
- Raising employees' awareness of risks and providing them with an additional incentive to adhere to laws, codes, and policies
- Establishing a control environment that makes reporting more accurate and reliable

The Chief Financial Officer of DEUTZ AG holds ultimate responsibility for the structure of the ICS. Part of this involves ensuring that the ICS and risk management system are geared toward the Company's risk situation. The Chief Financial Officer is also responsible for reporting on the status of the ICS to the Supervisory Board's Audit Committee.

ICS Coordination is responsible for the operational development and refinement of the Group-wide ICS concept and ICS processes, the implementation of the ICS concept, consulting in the business divisions and the corresponding reporting to the Chief Financial Officer.

As a process-independent monitoring body, Internal Audit reviews the appropriateness and effectiveness of the ICS. The findings of these reviews are reported directly to the Board of Management and the ICS coordinators and allow DEUTZ to eliminate any deficiencies that have been identified and ensure that the ICS is continually refined.

The ICS approach at DEUTZ AG is risk-oriented. Accordingly, business areas and business processes that are of material importance to DEUTZ AG are analyzed and documented. A risk inventory is developed and continuously updated for each relevant business process. Internal controls are used to reduce these risks to a level that is acceptable to DEUTZ. Analysis and documentation is carried out as part of a moderated approach by the central ICS coordinator. A verifiable ICS requires that the ICS and associated risks, control objectives and activities as well as responsibilities are documented. This takes place within the framework of the centrally created risk control matrices and is managed by the ICS coordinator, while procedural instructions, process descriptions and guidelines supplement the documentation of the ICS. The ICS is characterized by the following design features:

- The control environment describes the framework within which the principles, processes, and mechanisms of the system are applied. It ensures the ICS reflects management's basic attitudes, awareness of the issues, and conduct with regard to the identification of risks and risk tolerance.
- Risk assessment comprises the identification, analysis, and qualitative evaluation of relevant risks.
- DEUTZ AG has incorporated sustainability-related, non-financial assessment factors into the ICS so that it is able to document ESG risks for non-financial reporting purposes.
- Controls refer to those mechanisms and processes that are intended to ensure that the identified risks are either appropriately managed or reduced.
- Information and communication are a factor in all other parts of the ICS and ensure that information relating to the ICS is obtained, processed, and forwarded to the relevant departments in the Company in an appropriate and timely manner. DEUTZ AG's ICS is documented in a way that should enable a qualified third party to understand the processes and the embedded controls and therefore to fully comprehend the associated inherent risks.
- The ICS is routinely monitored to ensure that it is functioning effectively.

The internal control system of DEUTZ AG is designed in such a way that all significant business processes are looked at and it therefore has a wider reach than the accounting-related controls.

ICS management, which comprises the CFO of DEUTZ AG and the central ICS coordinator, develops the ICS methodology and the ICS process and derives standardized structures and rules for the DEUTZ ICS from this. The requirements for the centrally prescribed ICS methodology may change due, for example, to developments in the financial year, findings from audits, and changes in legislation. The necessary changes are drawn up and agreed by the ICS coordinator and communicated to all parts of the business that are affected following approval by the CFO of DEUTZ AG. The requirements for the centrally prescribed ICS methodology may change due, for example, to developments in the financial year, findings from audits, and changes in legislation. The necessary changes are drawn up and agreed by the ICS coordinator and communicated to all parts of the business that are affected following approval by the CFO of DEUTZ AG.

[92] Not audited.

However, a properly designed ICS can only provide relative and not absolute certainty when it comes to avoiding significant risks and achieving targets. Market risks such as short-term upheavals in customer demand or geopolitical risks such as temporary disruptions to supply chains are external shocks whose effects cannot be fully limited.

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) also aims to avoid or limit risk through process-integrated and process-independent monitoring mechanisms. The ICS is there to ensure the security and efficiency of business activity, compliance with relevant laws, principles, and internal guidelines, and the propriety and reliability of internal and external financial reporting. The internal control system of DEUTZ AG is designed in such a way that all significant business processes are looked at and it therefore has a wider reach than the accounting-related controls.

The Board of Management is responsible for setting up, monitoring, refining, and ensuring the effectiveness of the ICS. At operational level, the ICS coordinators are responsible for continually improving the DEUTZ AG's ICS and ensuring that its processes are documented. The Board of Management and Audit Committee are routinely provided with reports on the status of the ICS. However, even a properly structured ICS is unable to provide absolute security; it can only provide a relative level of security in helping to achieve targets and/or avoid material risks. With regard to the accounting-related internal control system, there can be no absolute certainty that material misstatements in financial reporting will be either avoided or identified. There can only ever be a relative degree of certainty.

The accounting process itself includes those parts of the operating processes that contain the financial reporting value flows, the process for preparing the separate financial statements and the consolidated financial statements, and all information sources and processes from which the material disclosures in the separate financial statements and the consolidated financial statements are derived.

Following a risk-oriented approach, risk is one of the aspects that is included in the analysis and assessment of DEUTZ AG's business processes. The risks identified by the risk management system and the findings of the audit of the ICS and of the processes are incorporated into the risk inventory as part of this. The accounting process includes those parts of the operating processes that contain the financial reporting value flows, the process for preparing the separate financial statements and the consolidated financial statements, and all information sources and processes from which the significant disclosures in the separate financial statements and the consolidated financial statements are derived.

Various monitoring mechanisms and risk-specific internal controls are in place to ensure that accounting is carried out properly and to ensure that the consolidated financial statements are correctly and consistently prepared. The controls include IT-supported and manual reconciliations, monitoring controls, and general IT controls such as access rules for IT systems and change management, while the fundamental principles of separation of functions and having work checked by a second member of staff reduce the risk of fraudulent acts.

The consolidated financial statements are prepared on the basis of central specifications. The same consolidation software is used for all entities and follows a prescribed chart of accounts for the Group. Relevant requirements are documented in the Group Accounting Manual, communicated as appropriate, and, together with the groupwide schedule for the year-end closing, form the basis of the process for preparing the separate financial statements and the consolidated financial statements. Ongoing analysis is carried out to determine whether the central specifications need to be modified due to changes in the regulatory environment. The reporting entities are responsible for adhering to the specifications; the Group Accounting department supports and monitors them. The data reported to DEUTZ's Group Accounting department by the subsidiaries is analyzed and validated on an ongoing basis as part of the monthly financial reporting process. Where necessary, DEUTZ also uses external service providers, such as independent assessors of pension liabilities. The Group Accounting department ensures that these requirements are adhered to across the Group.

The results of the analysis of risks and controls are recorded in a risk-control matrix to ensure proper documentation in the ICS. Documentation in the ICS is supported by procedural instructions, process descriptions, and guidelines. An ICS procedure tailored to DEUTZ AG is used to define fundamental principles regarding updates. This provides ongoing verification that the business processes analyzed in the ICS are up to date and appropriate.

As a process-independent monitoring function, Corporate Audit regularly verifies whether the statutory regulations and the DEUTZ Group's internal guidelines for its control and risk management system are being complied with and whether the internal controls are effective. The findings of these reviews are reported directly to the Board of Management and the ICS coordinators and allow DEUTZ to eliminate any deficiencies that have been identified and ensure that the ICS is continually refined.

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.

ASSESSMENT OF THE APPROPRIATENESS AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM[93]

The ICS functions in a way that detects risks and seeks to prevent them from occurring, supports the management of risk in relevant business processes, strengthens corporate governance within the Company, and makes reporting more accurate and reliable. It encompasses the systems-based and technical measures and controls of DEUTZ AG.

Audit reviews contribute to the efficient monitoring of the internal control system and the risk management system. Based on the results of the reviews of the ICS by Corporate Audit, the Board of Management is unaware of any circumstances that would suggest the ICS is not essentially appropriate and effective. The system is, however, subject to ongoing optimization as part of a continuous process of improvement.

[93] Not audited.

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 2024 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 2024. Identifying and harnessing these opportunities is the responsibility of the individual operating segments of the Group and the Board of Management.

RISK MANAGEMENT IN RELATION TO KEY TOPICS PURSUANT TO SECTION 289c (3) NOS. 3 AND 4 HGB

Dealing responsibly with risks that could negatively impact on the financial targets is not the only part of good corporate governance. Another important measure of good corporate governance is the regular identification and assessment of non-financial risks arising from the Company's own business activities, business relationships, and/or products and services, where such risks could have a negative impact on material non-financial aspects. This is also the case for risks that could affect the achievement of sustainability-related targets set by DEUTZ as part of its »Taking Responsibility« sustainability strategy. To this end, the DEUTZ Sustainable Development Committee (SDC), for example, generally reports to the Board of Management every quarter on the current situation with regard to the sustainability-related KPIs.[94] The objective, as part of a preventive risk management approach, is to be able to identify risks that might jeopardize the achievement of the targets at an early stage and to modify the action plan if necessary. The risk in respect of budgeted financial targets is not measured. Financial risk management instead takes account of any sustainability-related risks that could in principle have an impact on the financial position and financial performance. See also the non-financial report, p. 110 onward, for more information on the DEUTZ sustainability strategy and the Sustainable Development Committee.

Sustainability-related 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 have up to now been identified and evaluated manually. The plan is to integrate these risks into the Group's regular, system-based risk inventory in 2024 as part of the implementation of the **Corporate Sustainability Reporting Directive**.

Using the **net method**, no material risks were found in 2023 in relation to DEUTZ's own business activity, 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 aspects subject to reporting requirements now or in the future.

OPPORTUNITY ASSESSMENT

In the DEUTZ Group, the assessment of opportunities is 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 2024, weighted by probability.

Growth strategy As part of its overarching growth strategy Dual+, DEUTZ is particularly focusing on unlocking potential for growth in the classic engine business and, at the same time, ramping up the activities relating to alternative drive solutions, which are assigned to the Green segment, and expanding the high-margin service business.

The onus is on companies to reduce or limit carbon emissions around the world in the face of advancing climate change and the targets that have been set in order to achieve climate neutrality. However, DEUTZ firmly believes that internal combustion engines will continue to play, and will need to play, a dominant role in mobile machinery applications in the years ahead. To help to facilitate a smooth transition to more sustainable drive systems, DEUTZ is therefore taking an open-minded approach to technology as it continues to develop its engine portfolio. This means that in addition to the expansion of the Green portfolio, DEUTZ will also be forging ahead with the use of drive solutions that represent a more environmentally friendly alternative to the traditional internal combustion engine, for example using **HVO**, hydrogen, or synthetic fuels. This is enabling DEUTZ to build on its competitive position and attract new customer groups. The transition to carbon-neutral drive systems is accompanied by consolidation of the market. This provides DEUTZ with potential for growth, as it intends to play an active part in this consolidation and thus strengthen its market position. In the service business, by contrast, potential for growth stems firstly from new and, in particular, digital services and service products that are designed to increase customer loyalty and satisfaction. Secondly, growth opportunities are arising from the expansion of the global DEUTZ service network, from acquisitions and alliances, and from extending the scope of service activities to include non-DEUTZ engines. See also Strategy and objectives, p. 37 onward, and Research and development, p. 42 onward.

[94] The key figures defined as part of the DEUTZ sustainability strategy are not part of the internal control system.

DEUTZ categorizes the level of strategic opportunity with regard to the attainment of the financial targets as »low« for 2024 (2023: also »low«).

Market opportunities In our planning for 2024, we have anticipated a continuation of the challenging conditions due to economic uncertainties. If the market environment brightens during the year, additional growth opportunities will open up. See also Outlook for 2024, p. 85 onward.

DEUTZ categorizes the level of market opportunity with regard to the attainment of its targets as »low« for 2024 (2023: also »low«).

Operational opportunities In a mirror-image of the risk of suppliers charging higher prices, the significant fluctuation in energy prices again represents an opportunity in the form of falling procurement costs.

DEUTZ continues to categorize the level of operational opportunities with regard to the attainment of its targets as »low« for 2024 (2023: also »low«).

Legal opportunities In view of the current status of ongoing cases and in view of the measures that have been taken, DEUTZ categorizes the level of legal opportunity as »low« (2023: also »low«).

Outlook for 2024

ECONOMIC OUTLOOK

GDP growth[95]

YoY change (%)

	2024	2025
Global	3.1	3.2
Industrialized countries	1.5	1.8
Eurozone	0.9	1.7
Germany	0.5	1.6
USA	2.1	1.7
Emerging markets	4.1	4.2
China	4.6	4.1

In its January 2024 forecast, the International Monetary Fund (IMF) raised its expectations with regard to global economic growth for 2024 to 3.1 percent, an increase of 20 basis points compared with its forecast in October 2023.[96] The adjustment was prompted by greater-than-expected robustness in the USA and several large emerging markets. This stable level of growth compared with the prior year reflects not only the falling inflation expectation and the related expectation that the central banks will cut interest rates, but also low productivity gains.[97] See also Economic environment, p. 49.

The IMF left its expectations for GDP growth in 2025 unchanged. This is based on the assumption that inflation rates will continue to decrease in 2025, but that monetary policy will remain restrictive. Factoring in less fiscal support and low expected productivity growth, GDP growth is forecast to remain below the recent historical average of 3.8 percent (2000–2019). Global trade, meanwhile, is predicted to increase by 3.3 percent year on year in 2024 and by a further 3.6 percent in 2025.[98]

The moderate GDP forecast is set to be accompanied by a decline in prices for raw materials, which should help to lower inflation. Overall, the IMF projects that around 80 percent of countries will see their inflation rates fall over the course of 2024. Global inflation is expected to slow from 6.8 percent in 2023 to 5.8 percent in 2024 and 4.4 percent in 2025. However, this would still see inflation remaining above the long-term average of around 3.5 percent. It can be assumed that inflation will fall more sharply in industrialized countries than in emerging economies.

PROCUREMENT MARKET

The outlook for the procurement market is very difficult to gauge. It is currently impossible to tell whether there will be a further sustained fall in prices for raw materials in 2024.

We anticipate slight year-on-year decreases in energy prices, particularly in the case of electricity. With regard to transportation costs, we expect sea freight prices to rise owing to the attacks by Houthi rebels on container ships in the Red Sea and the possibility of a long-term escalation of this situation. Land freight will become less expensive as consumers continue to hold back on spending and the European economy weakens.

Conditions in the procurement market remain challenging due to persistent geopolitical uncertainty in connection with the Middle East conflict and war in Ukraine, inflation remaining at a high level, and political debate surrounding factors such as the shift toward renewable energies and a carbon-neutral economy.

DIESEL ENGINE MARKET

DEUTZ customer industries: Forecast for 2024

YoY change in unit sales (%)

	Europe	North America	China
Construction Equipment[99]	-5 to +5	-5 to +5	-5 to +5
Material handling[100]	-5 to +5	-5 to +5	0 to +5
Agricultural machinery[101,102]	-10 to 0	-10 to 0	-5 to 0

Currently available figures suggest that the key industries for sales of DEUTZ diesel engines for the **off-highway** segment are likely to experience similar levels of growth in 2024, as all regions and segments are equally affected by the current global crises and the related negative impacts. Business expectations across all sectors are being tempered by the wars in Ukraine and Israel, the attacks by Houthi militias on international shipping in the Red Sea, the resulting supply bottlenecks in global markets, and persistently high energy costs, interest rates, and inflation rates.

Demand for construction equipment is expected to be flat overall. While the long-term investment and infrastructure programs approved by the European Commission in the EU and the US government should ensure steady demand in the public sector in Europe and North America, demand in the private residential construction sector will continue to fall in the face of rising building costs. In China, the simmering real-estate crisis and the weak economic growth are putting further pressure on construction equipment manufacturers’ unit sales. Nevertheless, there are signs that the downturn may have bottomed out after two consecutive years of falling unit sales.

95 IMF, World Economic Outlook Update, January 2024.
96 IMF, World Economic Outlook Update, October 2023.
97 IMF, World Economic Outlook Update, January 2024.
98 IMF, World Economic Outlook Update, January 2024.
99 Power Systems Research, OE Link Update Bulletin Q4 2023, January 2024.
100 Power Systems Research, OE Link Update Bulletin Q4 2023, January 2024.
101 Power Systems Research, OE Link Update Bulletin Q4 2023, January 2024.
102 VDMA, Geschäftsklima und Marktentwicklung weltweit, February 2024.

Demand for **material handling** applications, especially forklift trucks, lifting platforms, and telehandlers, is set to be slightly up across all regions. In all probability, the increase in demand in Europe and North America will continue to be driven in particular by major equipment leasing companies investing in their fleets. The capital spending in 2023 and the announcements for 2024 indicate that the level of capital investment will remain high.

Demand for agricultural machinery is likely to be poor on the whole in 2024. In Europe, the volume of new orders continues to fall and business expectations are equally low, while in North America there are signs that the rate of growth will continue to drop off in 2024. The China IV emissions standard introduced in China at the end of 2022 will make tractors more expensive for some time to come, and with subsidies for new purchases also cut, demand is poised to continue falling in 2024.

BUSINESS OUTLOOK FOR 2024

Demand in the industries in which DEUTZ's customers operate normalized at the end of 2023, and it is expected that DEUTZ's own customer demand will again be more subdued at the beginning of 2024. It should also be borne in mind that further interest rate rises in 2023 made companies somewhat reluctant to invest, meaning that a recession this year cannot be entirely ruled out. This makes it hard to predict what the effects would be on the global economy and, in turn, on the DEUTZ Group's business performance. The global procurement market also remains a source of uncertainty.

The business outlook presented here was made on the basis of the information available at the end of February 2024 and relates to continuing operations excluding the Torqeedo Group. Due to the agreement to sell the Torqeedo Group reached in January 2024, this activity will be reported as a discontinued operation in 2024 in accordance with IFRS 5 for as long as it remains part of the DEUTZ Group as a whole.

UNIT SALES; REVENUE

DEUTZ is predicting unit sales of 160,000 to 180,000 DEUTZ engines[103] in 2024 based on the conditions outlined above. Together with the revenue that is expected to be generated from the Rolls-Royce Power Systems business from July 2024 onward, this should result in revenue increasing to between €1.9 billion and €2.1 billion. The revenue attributable to the Classic segment is likely to be within a span of just under €1.9 billion and just under €2.1 billion. The Green segment, which, following the sale of Torqeedo, comprises all activities connected with the development, production and sale of new, alternative drive solutions, such as electric or hydrogen-powered drives for **off-highway** applications, is expected to contribute revenue of between €10 million and €15 million.

EARNINGS

If unit sales and revenue prove to be as described above, DEUTZ expects the EBIT margin before exceptional items (adjusted EBIT margin) at Group level to be in a range of 5.0 percent to 6.5 percent. This span reflects the revenue range stated, as well as the fact that the loss-making Torqeedo business was sold and that prices for raw materials and energy are expected to remain stable in 2024. The increase in wages and salaries in Germany resulting from the collective pay agreement in 2022 will have a negative effect on earnings. See also Procurement market, p. 49 onward, and Employees, p. 48.

Looking at the individual segments, the adjusted EBIT margin for the Classic segment is expected to be between 7.0 percent and 8.4 percent, while the adjusted EBIT generated by the continuing operations of the Green segment is likely to be in a range of minus €30 million to minus €40 million. These figures must be viewed in the context of the Green segment generating relatively small revenues while continuing to spend significant amounts on research and development in order to build up the portfolio of alternative drive systems. See also Strategy and objectives, p. 37 onward, and Research and development, p. 42 onward.

The outlook section of previous annual reports had raised the prospect of payment of the final installment of the purchase consideration for the sale of the Cologne-Deutz site. It is currently not possible to provide any guidance on when this might be made.[104]

Based on the Company's earnings guidance, the return on capital employed (ROCE) before exceptional items in 2024 is expected to be a low-double-digit percentage figure.

[103] Excluding electric boat drives from DEUTZ subsidiary Torqeedo.
[104] 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.

RESEARCH AND DEVELOPMENT EXPENDITURE[105]

After deducting grants[106], DEUTZ expects expenditure on research and development to be in the range of €80 million to €90 million in 2024. This money is to be spent primarily on activities in the field of alternative drive systems, the ongoing development of the portfolio of engines with capacities of less than 4 liters, and the new MDEG and HDEP engine platforms from Daimler Truck AG.

See also Research and development, p.42 onward.

CAPITAL EXPENDITURE[107]

After deducting grants[108], capital expenditure[109] is likely to be in a range of €70 million to €90 million in 2024. See also Production and logistics, p.44 onward.

WORKING CAPITAL RATIO, FREE CASHFLOW AND EQUITY RATIO

The average working capital ratio for 2024 is predicted to be between 17 percent and 19 percent. Free cash flow excluding any M&A expenditure is likely to be an amount in the mid-double-digit millions of euros. The equity ratio is expected to remain well over 40 percent.

EMPLOYEES

Staffing levels Short-term peaks in demand for labor as a result of unexpected increases in production volume will be managed 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 fixed-term supplementary collective pay agreement, which includes a commitment by the Company to protect jobs at the sites in Cologne, Herschbach, and Ulm until the end of 2025.

Wage settlement In December 2022, IG Metall reached a new wage settlement for the metalworking and electrical engineering industry, to which DEUTZ AG belongs. The settlement includes an increase of 3.3 percent in the monthly basic pay of employees covered by collective pay agreements and in apprentices' monthly pay from May 2024 onward. In addition, a one-off inflation compensation payment of €3,000 net was agreed, of which at least half was to be paid in 2023. DEUTZ made half of this payment in January 2023 and half in January 2024. DEUTZ also intends to increase the remuneration of its employees not covered by collective pay agreements and its senior managers.

Outlook for 2025

Persistently high energy prices, the much higher level of interest rates, and the wars in Ukraine and the Middle East mean the pace of the global economic recovery remains fraught with uncertainty. With interest rates having been raised across the world last year in response to the high rates of inflation, there is a risk of recession in Germany and in other markets around the world. This is one of the reasons why DEUTZ, in its 2022 annual report, See also Outlook for 2025, p. 87, had set itself the target for 2025 of an increase in annual revenue to more than €2.5 billion with an EBIT margin before exceptional items in the range of 6 to 7 percent. This was based on the premise of implementing the Dual+ strategy. This target has been reaffirmed since the announcement of the portfolio adjustments.

The further development of the Classic engine portfolio is expected to be a key growth driver, as has been shown by the agreements with Daimler Truck AG and Rolls-Royce Power Systems. Ongoing internationalization and expansion of the higher-margin service business will also contribute to growth. DEUTZ predicts that the volume of annual revenue attributable to its service business will rise to around €600 million by 2025. The continued implementation of measures aimed at optimizing prices while raising efficiency will further underpin its profitability going forward. See also Strategy and objectives, p. 37 onward.

DEUTZ had set itself the target of raising the proportion of consolidated revenue generated by the Green segment to between 5 and 10 percent by 2025. Following the sale of Torqeedo, this target no longer applies. New medium-term targets will be defined during the course of 2024 as part of the reorganization of the Green segment. See also Strategy and objectives, p. 37 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.

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[105] 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.
[106] Grants from development partners and subsidies.
[107] 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.
[108] Excl. M&A.
[109] Grants from development partners and subsidies.