DRIVING

POWER

INTERIM REPORT
FOR THE FIRST HALF OF 2019

DEUTZ AT A GLANCE

The DEUTZ Group is one of the world's leading manufacturers of innovative drive systems. It employs more than 4,700 people worldwide and its core competencies are the development, production, and distribution of diesel, gas, and electric drive systems with a power output of up to 620 kW that are used in construction equipment, agricultural machinery, material handling equipment, stationary equipment, commercial vehicles, rail vehicles, and other applications. The engine specialist also offers a comprehensive range of services through more than 800 sales and service partners in over 130 countries.

The Company's operating activities are divided into three segments: DEUTZ Compact Engines (DCE), DEUTZ Customised Solutions (DCS), and Other. The DCE segment comprises liquid-cooled engines with capacities of up to 8 liters. Air-cooled engines, large liquid-cooled engines with capacities of more than 8 liters, and models that are soon to be discontinued are assigned to the DCS segment, which also includes reconditioned engines and parts produced under the name DEUTZ Xchange. The Torqeedo subsidiary is included in the Other segment. It manufactures electric drives for boats and has extensive expertise in the electrification of drive systems.

DEUTZ Group: Overview

€ million

	4–6/2019	4–6/2018	**1–6/2019**	1–6/2018
New orders	438.8	521.6	953.3	1,096.5
Unit sales (units)	53,856	56,743	101,591	105,201
Revenue	477.0	463.1	929.8	877.6
EBITDA	50.2	32.8	95.1	73.7
EBITDA before exceptional items	40.9	32.8	85.8	73.7
EBIT	31.4	11.7	56.5	33.4
EBIT before exceptional items	22.1	11.7	47.2	33.4
EBIT margin (%)	6.6	2.5	6.1	3.8
EBIT margin before exceptional items (%)	4.6	2.5	5.1	3.8
Net income	24.4	7.1	45.3	25.3
Net income (before exceptional items)	16.6	7.1	37.5	25.3
Earnings per share (€)	0.20	0.06	0.37	0.21
Earnings per share (before exceptional items, €)	0.14	0.06	0.31	0.21
Total assets	1,295.9	1,222.4	1,295.9	1,222.4
Non-current assets	560.6	487.9	560.6	487.9
Equity	643.7	590.1	643.7	590.1
Equity ratio (%)	49.7	48.3	49.7	48.3
Cash flow from operating activities	3.7	13.1	0.9	23.2
Free cash flow[1]	–16.0	–3.0	–46.2	–12.1
Net financial position[2]	–17.8	68.0	–17.8	68.0
Working capital[3]	336.7	294.9	336.7	294.9
Working capital ratio[4] (average, %)	16.8	15.3	16.8	14.9
Capital expenditure[5] (after deducting grants)	23.4	10.5	42.2	24.2
Depreciation and amortization	18.8	21.1	38.6	40.3
Research and development expenditure (after deducting grants)	21.1	19.0	44.7	37.7
thereof capitalized	4.2	3.9	9.6	8.2
Employees[6] (number as at Jun. 30)	4,863	4,389	4,863	4,389

[1] Free cash flow: cash flow from operating and investing activities less interest expense.
[2] Net financial position: cash and cash equivalents less current and non-current interest-bearing financial debt.
[3] Working capital: inventories plus trade receivables less trade payables.
[4] Working capital ratio (average, %): average working capital at the four quarterly reporting dates divided by revenue for the previous twelve months.
[5] Capital expenditure: capital expenditure on property, plant and equipment (including right-of-use assets in connection with leases) and intangible assets, excluding capitalization of R&D.
[6] From 2019 onward, the number of employees is expressed in full-time equivalents (FTEs). The figures for the prior-year period have been restated accordingly.

DEUTZ Group: Segments

€ million

	4–6/2019	4–6/2018	**1–6/2019**	1–6/2018
New orders				
DEUTZ Compact Engines	346.9	437.5	756.2	930.4
DEUTZ Customised Solutions	83.6	74.7	180.5	151.4
Other	9.4	9.7	18.6	15.0
Consolidation	–1.1	–0.3	–2.0	–0.3
Total	**438.8**	**521.6**	**953.3**	**1,096.5**
Unit sales (units)				
DEUTZ Compact Engines	42,954	49,900	81,924	94,463
DEUTZ Customised Solutions	6,415	2,631	13,509	4,393
Other	4,487	4,212	6,158	6,345
Consolidation	0	0	0	0
Total	**53,856**	**56,743**	**101,591**	**105,201**
Revenue				
DEUTZ Compact Engines	373.6	385.7	729.8	737.7
DEUTZ Customised Solutions	93.8	68.1	185.0	125.8
Other	10.7	9.6	17.0	14.4
Consolidation	–1.1	–0.3	–2.0	–0.3
Total	**477.0**	**463.1**	**929.8**	**877.6**
EBIT before exceptional items				
DEUTZ Compact Engines	16.4	3.7	34.9	20.7
DEUTZ Customised Solutions	10.8	10.2	23.6	17.9
Other	–5.1	–2.2	–11.3	–5.2
Consolidation	0.0	0.0	0.0	0.0
Total	**22.1**	**11.7**	**47.2**	**33.4**

INTERIM REPORT OF THE DEUTZ GROUP FOR THE FIRST HALF OF 2019

DEUTZ RECORDS GROWTH IN REVENUE AND EARNINGS IN THE FIRST HALF OF 2019 AND CONFIRMS ITS FULL-YEAR GUIDANCE

OVERVIEW

- At €953.3 million, new orders in the first half of 2019 are 13.1 percent lower than the extremely robust volume reported for the prior-year period, which had been positively influenced by a change in customers' ordering patterns

- Orders on hand amount to €462.6 million and thus remain at a high level

- Consolidated revenue rises by 5.9 percent to €929.8 million; further success in the expansion of the high-margin service business, which grows by 7.9 percent

- EBIT up by 69.2 percent to €56.5 million due to the positive impact of exceptional items of €9.3 million, EBIT margin improves from 3.8 percent to 6.1 percent; EBIT before exceptional items advances by 41.3 percent to €47.2 million, EBIT margin before exceptional items increases from 3.8 percent in the first half of 2018 to 5.1 percent

- Earnings per share rises from €0.21 to €0.37; adjusted earnings per share up from €0.21 in the first half of 2018 to €0.31

- Letter of intent signed with Munich-based start-up KEYOU regarding collaboration on jointly developing commercially viable, locally carbon-neutral hydrogen engines for off-road and on-road applications and bringing them to production readiness

- Successful presentation of new engines and other innovative drive systems for a future of locally carbon-neutral transport at the 2019 bauma trade fair in Munich

- Expansion of the dealer and service network in the Middle East

- Joint venture agreement signed with SANY, China's largest construction equipment manufacturer, marking an important milestone in the implementation of the growth strategy in China

- The Group's full-year guidance for 2019 confirmed in spite of the increasingly challenging macroeconomic and geopolitical environment: expected rise in revenue to more than €1.8 billion and an expected increase in the EBIT margin before exceptional items to ≥ 5.0 percent

- Medium-term targets for 2022 confirmed: increase in revenue to over €2.0 billion and EBIT margin before exceptional items of between 7 and 8 percent

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

In the first quarter of 2019, DEUTZ changed the regional assignment of one of its big-ticket customers in order to standardize how the regional breakdown of revenue is disclosed. Business with this customer is no longer allocated exclusively to the EMEA region (Europe, Middle East, and Africa). Instead, it can now also be allocated to the Americas and Asia-Pacific regions, depending on the location of the local subsidiary's registered office. The figures for the prior-year period have been restated accordingly.

ECONOMIC ENVIRONMENT

Global economic growth slows slightly; mixed trend across individual economies[1] The International Monetary Fund (IMF) is expecting global economic growth of 3.2 percent for 2019 as a whole (2018: 3.6 percent). The escalating trade dispute between the US and China and other uncertainties, for example those related to Brexit, are the main factors in this weakening compared with the prior year. An increase of 1.3 percent is predicted for the eurozone (2018: 1.8 percent), with the rate of growth across the individual countries expected to vary quite substantially. The pace of economic expansion in Germany, for example, is likely to slow significantly to 0.7 percent (2018: 1.4 percent), primarily because of weaker demand from abroad. A growth rate of 2.6 percent is anticipated for the US economy (2018: 2.9 percent). Against a backdrop of tense trade relations, the IMF predicts that there will be a further year-on-year slowdown in economic expansion in China to 6.2 percent (2018: 6.6 percent).

According to DEUTZ's own estimates, the market for drive systems for off-highway applications continued to expand in the first half of 2019. However, the rate of growth was slower than in 2018. The construction equipment and material handling sectors grew by up to 5 percent in Europe and North America and by up to 10 percent in China. The market for agricultural machinery in Europe and North America also looks set to have grown by up to 5 percent, but in China it is expected to have shrunk by between 5 and 10 percent.

In our view, economic growth will continue to weaken over the course of the year. Key factors for this can be seen in the worldwide slowdown in economic expansion and in global uncertainties and trade tensions.

Based on current estimates, the rates of market growth are expected to hold steady or decline slightly in 2020.

[1] Source: IMF, World Economic Outlook, July 2019.

NEW ORDERS

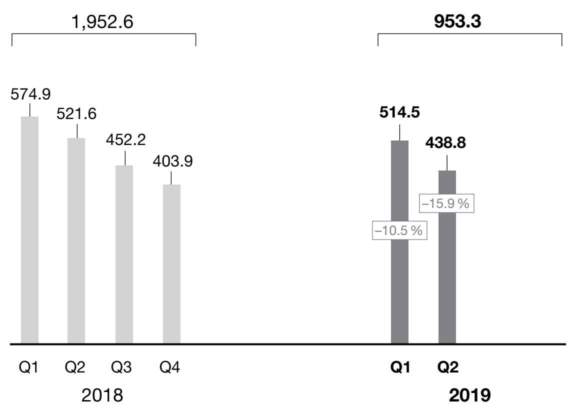
High level of new orders sustained DEUTZ generated new orders worth €953.3 million in the first half of 2019. Although still at a high level, new orders were 13.1 percent lower than the extremely robust volume reported for the prior-year period, which had been positively influenced by a change in customers' ordering patterns. In addition to this year-on-year effect, a weakening of demand as a result of the economic climate had an adverse impact at the end of the second quarter.

In the second quarter of 2019, new orders decreased by 15.9 percent year on year to €438.8 million because of a fall in demand in the Construction Equipment and Material Handling application segments.

Orders on hand amounted to €462.6 million as at June 30, 2019. Although this was 5.2 percent lower than the strong figure reported a year earlier, it was still at a high level.

DEUTZ Group: New orders by quarter

€ million



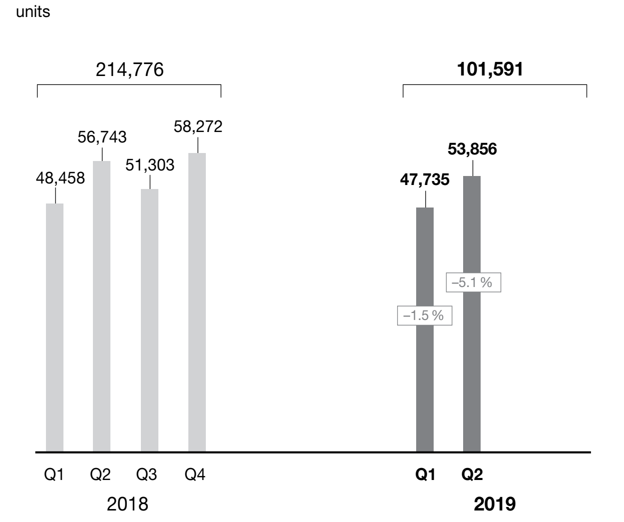
UNIT SALES

Unit sales down slightly on the prior-year period In the first half of 2019, DEUTZ sold a total of 101,591 engines, including 6,158 electric motors sold under the Torqeedo brand. This represented a decline of 3.4 percent on the prior-year period.

In the EMEA region (Europe, Middle East, and Africa), DEUTZ's biggest sales market, a total of 54,330 engines were sold in the first six months of the year, compared with 60,852 in the first half of 2018. This decline was partly due to lower demand from one large customer. By contrast, unit sales in the Asia-Pacific and Americas regions grew by 10.8 percent and 3.8 percent respectively.

In the second quarter of 2019, DEUTZ sold 53,856 engines, including 4,487 Torqeedo motors. The equivalent figures for unit sales in the prior-year period were 56,743 and 4,212.

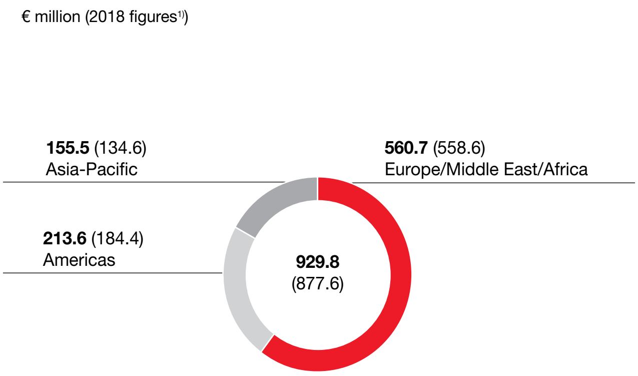
DEUTZ Group: Consolidated unit sales by quarter



RESULTS OF OPERATIONS

REVENUE

DEUTZ Group: Revenue by region



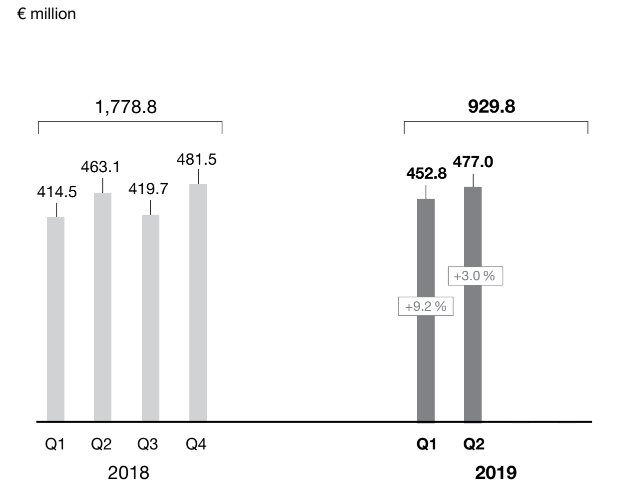
[1] Adjusted due to a change in the regional allocation of the revenue of one big-ticket customer.

Year-on-year increase in revenue The revenue generated by the DEUTZ Group rose by 5.9 percent to €929.8 million in the first half of 2019. All regions and all of the main application segments contributed to this result. The Material Handling application segment performed particularly strongly, delivering revenue growth of 8.8 percent, as did the high-margin service business, whose revenue was up by 7.9 percent on the prior-year period.

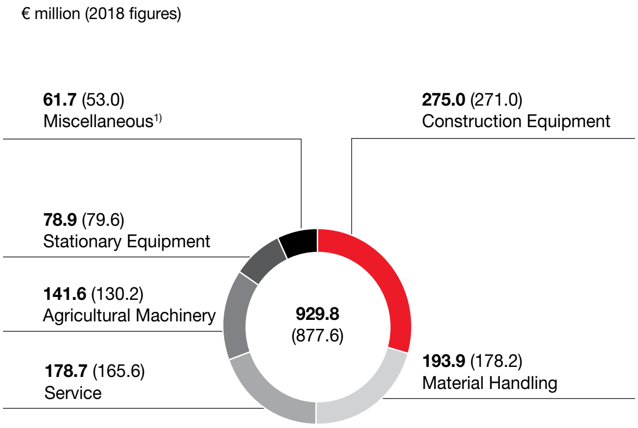
In the regional breakdown, the largest revenue increases were recorded in the Americas (up by 15.8 percent) and in Asia-Pacific (up by 15.5 percent). In the Americas region, DEUTZ particularly benefited from the general recovery in the market and from higher demand for new engine series. Factors in the substantial increase in revenue generated in the Asia-Pacific region included revenue growth in China and other Asian countries as well as business with new customers.

Revenue generated in the second quarter of 2019 amounted to €477.0 million, a year-on-year increase of 3.0 percent.

DEUTZ Group: Revenue by quarter



DEUTZ Group: Revenue by application segment



[1] From 2019 onward, the revenue from automotive business is included in the Miscellaneous application segment. Up to and including 2018, it was shown separately. The figures for the prior-year period have been restated accordingly.

EARNINGS

Overview of the DEUTZ Group's results of operations

€ million

	1–6/2019	1–6/2018	Change (%)
Revenue	**929.8**	**877.6**	**5.9**
Cost of sales	–757.0	–714.5	5.9
Research and development costs	–44.0	–47.8	–7.9
Selling and administrative expenses	–78.5	–71.1	10.4
Other operating income	18.2	13.3	36.8
Other operating expenses	–12.2	–9.7	25.8
Write-downs of financial assets	–0.2	–0.5	–60.0
Profit/loss on equity-accounted investments	0.4	–2.6	–115.4
Write-down of equity-accounted investments	0.0	–11.3	–100.0
Operating profit (EBIT)	**56.5**	**33.4**	**69.2**
Exceptional items	9.3	0.0	–
EBIT (before exceptional items)	**47.2**	**33.4**	**41.3**
Interest expenses, net	–1.2	–1.0	20.0
Income taxes	–10.0	–7.1	40.8
Net income	**45.3**	**25.3**	**79.1**

Double-digit increase in earnings The DEUTZ Group's operating profit (EBIT before exceptional items) rose by 41.3 percent to €47.2 million in the first half of 2019. This significant increase was due to the rise in revenue and, in particular, to a low figure being reported in the prior-year period, which had been heavily affected by a drag on earnings resulting from the joint venture DEUTZ (Dalian) Engine Co. Ltd., Dalian, China. The stake in this Chinese joint venture was sold at the end of 2018. However, there were also negative effects on earnings in the first half of 2019 relating to the deconsolidation of the joint venture DEUTZ AGCO Motores S.A., Haedo, Argentina, in the first quarter of 2019. Furthermore, provisions were recognized in connection with a product recall involving Torqeedo companies. The DEUTZ Group's EBIT margin before exceptional items improved from 3.8 percent to 5.1 percent in the reporting period.

In accordance with the agreement from 2017 regarding the sale of the land at the former Cologne-Deutz site, the proceeds of €9.3 million from the sale of a small part of this land were recognized in the second quarter of 2019. After taking these exceptional items into account, EBIT came to €56.5 million, which was 69.2 percent higher than in the first half of 2018. The corresponding EBIT margin thus increased from 3.8 percent in the prior-year period to 6.1 percent.

Thanks to the rise in operating profit, net income went up by 79.1 percent compared with the first half of 2018 to reach €45.3 million. As a result, earnings per share increased from €0.21 to €0.37. Adjusted for exceptional items, net income rose by 48.2 percent to €37.5 million, which led to adjusted earnings per share of €0.31.

BUSINESS PERFORMANCE IN THE SEGMENTS

BUSINESS PERFORMANCE IN THE DEUTZ COMPACT ENGINES (DCE) SEGMENT

Due to the relocation of production of the 2011 engine series from Cologne-Porz to Ulm, this engine series was reassigned from the DEUTZ Compact Engines segment to the DEUTZ Customised Solutions segment with effect from January 1, 2019. This explains why the following key figures for the segment compare unfavorably with the equivalent figures for the prior-year period.

For example, at €756.2 million, new orders were down by 18.7 percent year on year in the first half of 2019; unit sales fell by 13.3 percent to 81,924 engines. Despite the reassignment of the engine series, however, the revenue of €729.8 million that was generated was close to the level achieved in the first half of 2018. This was mainly due to a favorable shift in the product mix toward higher-value engines.

Operating profit for the segment improved by 68.6 percent to €34.9 million in the reporting period despite the reassignment of the engine series. This sharp increase was primarily due to a low figure being reported in the prior-year period, which had been adversely affected by a drag on earnings resulting from the joint venture DEUTZ Dalian. The EBIT margin improved from 2.8 percent in the first half of 2018 to 4.8 percent.

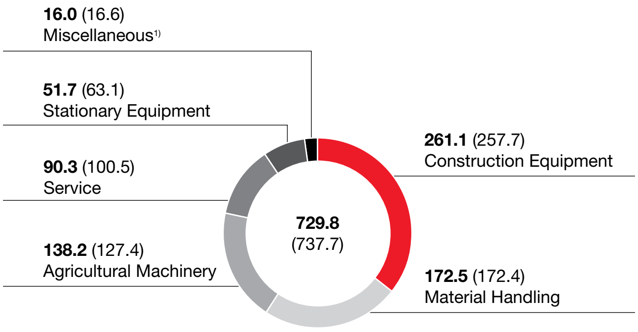
DEUTZ Compact Engines

	1–6/2019[1)]	1–6/2018	Change (%)
New orders (€ million)	756.2	930.4	–18.7
Unit sales (units)	81,924	94,463	–13.3
Revenue (€ million)	729.8	737.7	–1.1
EBIT (€ million)	34.9	20.7	68.6
EBIT margin (%)	4.8	2.8	–

[1)] The 2011 engine series was reassigned from the DEUTZ Compact Engines segment to the DEUTZ Customised Solutions segment with effect from January 1, 2019. The figures for the prior-year period have not been adjusted.

DEUTZ Compact Engines: Revenue by application segment

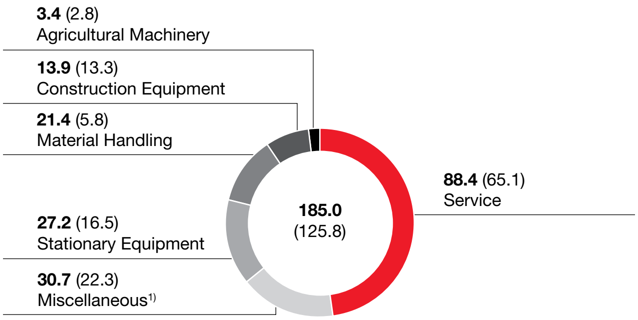
€ million (2018 figures)



[1] From 2019 onward, the revenue from automotive business is included in the Miscellaneous application segment. Up to and including 2018, it was shown separately. The figures for the prior-year period have been restated accordingly.

DEUTZ Customised Solutions: Revenue by application segment

€ million (2018 figures)



[1] From 2019 onward, the revenue from automotive business is included in the Miscellaneous application segment. Up to and including 2018, it was shown separately. The figures for the prior-year period have been restated accordingly.

BUSINESS PERFORMANCE IN THE DEUTZ CUSTOMISED SOLUTIONS (DCS) SEGMENT

The DEUTZ Customised Solutions segment performed exceptionally well in the reporting period, primarily because the 2011 engine series has been reassigned to this segment and because of unit sales of higher-value engines.

New orders in the DCS segment went up by a substantial 19.2 percent to €180.5 million in the first half of 2019, while the unit sales figure of 13,509 engines was more than three times the amount recorded in the prior-year period. Revenue rose by 47.1 percent year on year to reach €185.0 million.

Operating profit for the segment was significantly higher than in the first half of 2018, jumping by 31.8 percent to €23.6 million. A key factor in this increase besides the reassignment of the engine series was the greater proportion of high-margin service business. The reassignment of the 2011 engine series had an adverse impact on the segment's profitability, however. Because the profit margin of the 2011 engine series is lower than that of the other series, the EBIT margin fell from 14.2 percent to 12.8 percent.

DEUTZ Customised Solutions

	1–6/2019[1]	1–6/2018	Change (%)
New orders (€ million)	180.5	151.4	19.2
Unit sales (units)	13,509	4,393	207.5
Revenue (€ million)	185.0	125.8	47.1
EBIT (€ million)	23.6	17.9	31.8
EBIT margin (%)	12.8	14.2	–

[1] The 2011 engine series was reassigned from the DEUTZ Compact Engines segment to the DEUTZ Customised Solutions segment with effect from January 1, 2019. The figures for the prior-year period have not been adjusted.

OTHER

The Other segment reported an operating loss of €11.3 million in the period under review (H1 2018: operating loss of €5.2 million). One reason for this change was the deconsolidation of the joint venture DEUTZ AGCO Motores S.A., Haedo, Argentina, in the first quarter of 2019 for reasons of materiality, as a result of which cumulative negative exchange differences of €2.9 million were reclassified from equity to the income statement. A product recall that began in June 2019 and the associated recognition of provisions caused Torqeedo's operating loss to deteriorate from €5.5 million in the first half of 2018 to €8.2 million in the first half of the current year.

Other

	1–6/2019	1–6/2018	Change (%)
New orders (€ million)	18.6	15.0	24.0
Unit sales (units)	6,158	6,345	–2.9
Revenue (€ million)	17.0	14.4	18.1
EBIT (€ million)	–11.3	–5.2	117.3
EBIT margin (%)	–66.5	–36.1	–

FINANCIAL POSITION

Overview of the DEUTZ Group's financial position

€ million

	1–6/2019	1–6/2018	Change (%)
Cash flow from operating activities	0.9	23.2	–96.1
Cash flow from investing activities	–45.6	–34.1	33.7
Cash flow from financing activities	–31.3	–17.5	78.9
Change in cash and cash equivalents	–76.0	–28.4	167.6
Free cash flow[1] from continuing operations	–46.2	–12.1	281.8
Cash and cash equivalents at Jun. 30/Dec. 31	57.0	132.8	–57.1
Current and non-current interest-bearing financial debt at Jun. 30/Dec. 31	74.8	39.1	91.3
Net financial position[2] at Jun. 30./Dec. 31	–17.8	93.7	–119.0

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

FUNDING

Cash flow from operating activities amounted to €0.9 million in the first half of 2019 (H1 2018: €23.2 million). This sharp decline was predominantly due to the repayment of current liabilities to factoring companies at the beginning of the period under review. There had been a reporting date-related increase in these liabilities as at December 31, 2018. In addition, payments for income taxes were much higher in the first half of 2019 than in the first half of 2018 because of the proceeds from the sale of the land at the Cologne-Deutz site in 2017. Net cash used for investing activities was above the level reported in the first half of 2018 because of the increase in cash payments related to capital spending on property, plant and equipment and intangible assets.

Cash flow from financing activities amounted to minus €31.3 million in the first six months of 2019 (H1 2018: minus €17.5 million). Included in this figure were the payments of interest and principal in connection with leases, which totaled €0.4 million and €6.0 million respectively. Leases have been accounted for in accordance with IFRS 16 'Leases' since January 1, 2019. As a result of this change in accounting treatment, lease payments are now shown as payments of interest and principal under cash flow from financing activities instead of under cash flow from operating activities. The dividend payment for 2018 was €18.1 million, which was the same amount as the year before.

The deterioration in cash flow from operating activities and the greater amount of net cash used for investing activities meant that free cash flow amounted to minus €46.2 million (H1 2018: minus €12.1 million). The change of accounting treatment to comply with IFRS 16 boosted free cash flow by €6.0 million.

The changes in cash flow described above led to a decline in cash and cash equivalents and a deterioration in the net financial position as at June 30, 2019. The change in the net financial position is also attributable to the initial application of the new leasing standard IFRS 16 with effect from January 1, 2019, as a result of which lease liabilities totaling €40.9 million were included in current and non-current financial debt as at June 30, 2019.

NET ASSETS

Overview of the DEUTZ Group's assets

€ million

	Jun. 30, 2019	Dec. 31, 2018	Change (%)
Non-current assets	640.0	582.1	9.9
Current assets	655.9	666.8	–1.6
Assets classified as held for sale	0.0	0.4	–100.0
Total assets	**1,295.9**	**1,249.3**	**3.7**
Equity	643.7	619.1	4.0
Non-current liabilities	238.5	212.3	12.3
Current liabilities	413.7	417.9	–1.0
Total equity and liabilities	**1,295.9**	**1,249.3**	**3.7**
Working capital[1] (€ million)	336.7	276.2	21.9
Working capital ratio (Jun. 30, %)	18.4	15.5	–
Working capital ratio (average, %)	16.8	15.8	–
Equity ratio[2] (%)	49.7	49.6	–

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

Due to initial application of the aforementioned IFRS 16 with effect from January 1, 2019, non-current assets included right-of-use assets of €40.6 million in connection with leases as at June 30, 2019. These leased assets predominantly relate to leased property. The rise in current assets was mainly attributable to the seasonal and demand-driven growth of inventories and trade receivables. This increase caused working capital to advance to €336.7 million as at the reporting date.

Non-current and current liabilities rose by a total of €40.9 million, also as a result of lease liabilities being recognized following initial application of IFRS 16.

RESEARCH AND DEVELOPMENT

R&D ratio increases as expected The DEUTZ Group's expenditure on research and development (after reimbursements) went up by 18.6 percent year on year to €44.7 million. This was due not only to projects for new engines but also to development activities under the E-DEUTZ strategy that will lead to the expansion of the engine portfolio. As expected, the R&D ratio rose to 4.8 percent compared with 4.3 percent in the prior-year period.

Research and development

	1–6/2019	1–6/2018	Change (%)
R&D expenditure (after deducting grants, € million)	44.7	37.7	18.6
thereof DCE (€ million)	36.6	32.4	13.0
thereof DCS (€ million)	5.3	2.2	140.9
thereof Other/Torqeedo (€ million)	2.8	3.1	–9.7
R&D ratio (as a percentage of revenue)	4.8	4.3	–

EMPLOYEES

Year-on-year increase in the number of employees The DEUTZ Group employed 4,863 people worldwide as at June 30, 2019 (excluding temporary workers). This year-on-year increase of 474 in the number of employees is primarily due to the rise in the volume of business and to some temporary workers being given fixed-term employment contracts. At 341, the number of temporary workers was down by 95 compared with the end of the prior-year period.

Employees[1]

Number

	1–6/2019	1–6/2018	Change (%)
Cologne	2,748	2,488	10.5
Ulm	541	450	20.2
Other	311	273	13.9
In Germany	**3,600**	**3,211**	**12.1**
Outside Germany	**1,263**	**1,178**	**7.2**
Total	**4,863**	**4,389**	**10.8**

[1] From 2019 onward, the number of employees is expressed in full-time equivalents (FTEs). The figures for the prior-year period have been restated accordingly.

OPPORTUNITY AND RISK REPORT

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

Pages 55 to 58 of the 2018 annual report explain the structure of the risk management system and describe certain material risks and opportunities for the financial position and financial performance of the DEUTZ Group in 2019.

The market risk outlined in the 2018 annual report has worsened in light of the recent downturn in new orders and the current forecasts for the economy. We have therefore raised the market risk with regard to the attainment of our financial targets for 2019 from 'low' to 'moderate'. We did not identify any new material risks or opportunities in the first half of 2019.

OUTLOOK

Global economy expected to pick up again slightly in 2020; trend across individual economies will remain mixed Looking ahead to 2020, the IMF anticipates that economic expansion in most countries and regions will be more buoyant than in 2019. It is forecasting global economic growth of 3.5 percent in 2020, compared with 3.2 percent in 2019. The prediction for the eurozone is growth of 1.6 percent (2019: 1.3 percent). In particular, the German economy is expected to pick up markedly compared with the reporting year, with forecast growth of 1.7 percent (2019: 0.7 percent). However, US economic growth is likely to slow to a rate of 1.9 percent due to diminishing stimulus from fiscal policy. Although the growth of the Chinese economy will remain at a relatively high level, it is expected to see a further slowdown from 6.2 percent in 2019 to 6.0 percent in 2020.

The Group's full-year guidance for 2019 confirmed Given that orders on hand remain at a high level, the Board of Management confirms the Group's full-year guidance for 2019 despite an increasingly challenging macroeconomic and geopolitical environment.

Revenue is still expected to rise to more than €1.8 billion and the EBIT margin before exceptional items to at least 5.0 percent. The improvement in profitability is likely to result mainly from the anticipated growth in revenue but also from the various measures aimed at continuously increasing efficiency. The ongoing expansion of the service business will also help to improve the margin overall.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2019

INCOME STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	4–6/2019	4–6/2018	1–6/2019	1–6/2018
Revenue	1	**477.0**	**463.1**	**929.8**	**877.6**
Cost of sales		–391.7	–379.0	–757.0	–714.5
Research and development costs		–21.3	–24.9	–44.0	–47.8
Selling expenses		–25.9	–24.6	–51.8	–47.9
General and administrative expenses		–14.0	–12.1	–26.7	–23.2
Other operating income		11.4	8.4	18.2	13.3
Other operating expenses		–3.9	–4.4	–12.2	–9.7
Write-downs of financial assets		–0.6	–0.4	–0.2	–0.5
Profit/loss on equity-accounted investments		0.4	–3.1	0.4	–2.6
Write-downs of equity-accounted investments		0.0	–11.3	0.0	–11.3
EBIT		**31.4**	**11.7**	**56.5**	**33.4**
thereof exceptional items		9.3	0.0	9.3	0.0
thereof operating profit (EBIT before exceptional items)		22.1	11.7	47.2	33.4
Interest expenses, net		–0.6	–0.4	–1.2	–1.0
thereof finance costs		–0.8	–0.5	–1.6	–1.2
Net income before income taxes		**30.8**	**11.3**	**55.3**	**32.4**
Income taxes	2	–6.4	–4.2	–10.0	–7.1
Net income		**24.4**	**7.1**	**45.3**	**25.3**
thereof attributable to shareholders of DEUTZ AG		24.4	7.1	45.3	25.3
thereof attributable to non-controlling interests		0.0	0.0	0.0	0.0
Earnings per share (basic/diluted, €)		**0.20**	**0.06**	**0.37**	**0.21**

STATEMENT OF COMPREHENSIVE INCOME FOR THE DEUTZ GROUP

€ million

	Note	4–6/2019	4–6/2018	1–6/2019	1–6/2018
Net income		**24.4**	**7.1**	**45.3**	**25.3**
Amounts that will not be reclassified to the income statement in the future		**–3.6**	**0.0**	**–6.9**	**–0.5**
Remeasurements of defined benefit plans		–3.6	0.0	–6.9	–0.5
Amounts that will be reclassified to the income statement in the future if specific conditions are met		**0.1**	**0.1**	**4.3**	**–0.4**
Currency translation differences		–0.7	1.3	3.7	0.8
thereof profit/loss on equity-accounted investments		0.0	0.1	2.9	0.3
Effective portion of change in fair value from cash flow hedges		0.8	–1.3	0.3	–1.3
Fair value of financial instruments		0.0	0.1	0.3	0.1
Other comprehensive income, net of tax	3	**–3.5**	**0.1**	**–2.6**	**–0.9**
Comprehensive income		**20.9**	**7.2**	**42.7**	**24.4**
thereof attributable to shareholders of DEUTZ AG		20.9	7.2	42.7	24.4
thereof attributable to non-controlling interests		0.0	0.0	0.0	0.0

BALANCE SHEET FOR THE DEUTZ GROUP

€ million

Assets	Note	Jun. 30, 2019	Dec. 31, 2018
Property, plant and equipment	4	335.9	283.8
Intangible assets		204.8	203.6
Equity-accounted investments		2.5	2.1
Other financial assets		17.4	16.7
Non-current assets (before deferred tax assets)		**560.6**	**506.2**
Deferred tax assets		79.4	75.9
Non-current assets		**640.0**	**582.1**
Inventories		387.9	333.5
Trade receivables		171.1	157.3
Other receivables and assets		39.9	43.2
Cash and cash equivalents		57.0	132.8
Current assets		**655.9**	**666.8**
Non-current assets classified as held for sale	5	0.0	0.4
Total assets		**1,295.9**	**1,249.3**

Equity and liabilities	Note	Jun. 30, 2019	Dec. 31, 2018
Issued capital		**309.0**	**309.0**
Additional paid-in capital		28.8	28.8
Other reserves		–0.4	–4.7
Retained earnings and accumulated income		306.1	285.8
Equity attributable to shareholders of DEUTZ AG		**643.5**	**618.9**
Non-controlling interests		0.2	0.2
Equity		**643.7**	**619.1**
Provisions for pensions and other post-retirement benefits		157.3	152.8
Deferred tax liabilities		0.3	0.5
Other provisions		37.3	36.2
Financial debt	6	41.0	19.3
Other liabilities		2.6	3.5
Non-current liabilities		**238.5**	**212.3**
Provisions for pensions and other post-retirement benefits		13.0	13.0
Provisions for current income taxes		6.3	17.9
Other provisions		67.5	65.4
Financial debt	6	33.8	19.8
Trade payables		222.3	214.6
Other liabilities		70.8	87.2
Current liabilities		**413.7**	**417.9**
Total equity and liabilities		**1,295.9**	**1,249.3**

STATEMENT OF CHANGES IN EQUITY FOR THE DEUTZ GROUP

€ million

	Issued capital	Additional paid-in capital	Retained earnings and accu-mulated income	Currency translation reserve in connection with non-current assets classified as held for sale	Fair value reserve [1)2)]	Currency translation adjust-ment [1)]	Equity at-tributable to share-holders of DEUTZ AG	Non-controlling interests	Total
Balance at Dec. 31, 2017	**309.0**	**28.8**	**249.4**	**0.0**	**0.7**	**11.1**	**599.0**	**0.2**	**599.2**
Adjustment due to correction of errors			–15.2			0.3	–14.9		–14.9
Adjusted balance at Dec. 31, 2017	**309.0**	**28.8**	**234.2**	**0.0**	**0.7**	**11.4**	**584.1**	**0.2**	**584.3**
Change in accounting methods[3)]			–0.1		–0.4		–0.5		–0.5
Adjusted balance at Jan. 1, 2018	**309.0**	**28.8**	**234.1**	**0.0**	**0.3**	**11.4**	**583.6**	**0.2**	**583.8**
Dividend payments			–18.1				–18.1		–18.1
Net income			25.3				25.3	0.0	25.3
Other comprehensive income			–0.5		–1.2	0.8	–0.9	0.0	–0.9
Comprehensive income			24.8	0.0	–1.2	0.8	24.4	0.0	24.4
Other changes				15.8		–15.8	0.0		0.0
Adjusted balance at Jun. 30, 2018	**309.0**	**28.8**	**240.8**	**15.8**	**–0.9**	**–3.6**	**589.9**	**0.2**	**590.1**
Balance at Dec. 31, 2018	**309.0**	**28.8**	**285.8**	**0.0**	**–1.0**	**–3.7**	**618.9**	**0.2**	**619.1**
Dividend payments			–18.1				–18.1		–18.1
Net income			45.3				45.3	0.0	45.3
Other comprehensive income			–6.9		0.6	3.7	–2.6	0.0	–2.6
Comprehensive income			38.4	0.0	0.6	3.7	42.7	0.0	42.7
Balance at Jun. 30, 2019	**309.0**	**28.8**	**306.1**	**0.0**	**–0.4**	**0.0**	**643.5**	**0.2**	**643.7**

[1)] On the balance sheet these items are aggregated under 'Other reserves'.
[2)] Reserves from the measurement of cash flow hedges and reserves from the measurement of financial instruments at fair value.
[3)] The adjustment of the figures relates to the change in the recognition of financial instruments stipulated by IFRS 9.

CASH FLOW STATEMENT FOR THE DEUTZ GROUP

€ million

	Note	1–6/2019	1–6/2018
EBIT		**56.5**	**33.4**
Income taxes paid		–20.7	–6.3
Depreciation, amortization and impairment of non-current assets		38.6	40.3
Gains/losses on the sale of non-current assets		–8.9	0.0
Profit/loss and impairment on equity-accounted investments		–0.4	13.9
Other non-cash income and expenses		2.9	0.0
Change in working capital		–55.5	–68.1
Change in inventories		–53.9	–42.9
Change in trade receivables		–13.5	–30.0
Change in trade payables		11.9	4.8
Change in other receivables and other current assets		2.7	2.3
Change in provisions and other liabilities (excluding financial liabilities)		–14.3	7.7
Cash flow from operating activities		**0.9**	**23.2**
Capital expenditure on intangible assets, property, plant and equipment		–49.4	–34.1
Expenditure on investments		–0.3	0.0
Proceeds from the sale of non-current assets		4.1	0.0
Cash flow from investing activities		**–45.6**	**–34.1**
Dividend payments to shareholders		–18.1	–18.1
Interest income		0.2	0.1
Interest expense		–1.7	–1.3
Cash receipts from borrowings		4.3	11.2
Repayments of loans		–10.0	–9.4
Principal elements of lease payments		–6.0	–
Cash flow from financing activities		**–31.3**	**–17.5**
Cash flow from operating activities		0.9	23.2
Cash flow from investing activities		–45.6	–34.1
Cash flow from financing activities		–31.3	–17.5
Change in cash and cash equivalents		**–76.0**	**–28.4**
Cash and cash equivalents at Jan. 1		**132.8**	**143.8**
Change in cash and cash equivalents		–76.0	–28.4
Change in cash and cash equivalents related to exchange rates		0.2	0.2
Cash and cash equivalents at Jun. 30		**57.0**	**115.6**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2019

BASIC PRINCIPLES

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These interim financial statements for the period ended June 30, 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Accounting Standards Board (IASB) regarding interim financial reporting (IAS 34) as adopted by the European Union. Consequently, these interim consolidated financial statements do not contain all the information and notes required by IFRS for consolidated financial statements for a full financial year, and should therefore be read in conjunction with the IFRS consolidated financial statements published for the 2018 financial year.

The condensed interim consolidated financial statements for the period ended June 30, 2019 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity, and selected notes to the consolidated financial statements – and the interim group management report for the period January 1 to June 30, 2019 have been reviewed by an auditor pursuant to section 115 of the German Securities Trading Act (WpHG).

SIGNIFICANT ACCOUNTING POLICIES

With the exception of the amendments described below, the accounting policies used in the preparation of these interim consolidated financial statements are essentially the same as those used in the most recent consolidated financial statements for the year ended December 31, 2018. Further information on the accounting policies used can be found in the notes to the consolidated financial statements for 2018.

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

IFRIC 23 'Uncertainty over Income Tax Treatments' The publication of IFRIC 23 in June 2017 eliminated uncertainties surrounding the income tax treatment of profits, losses, tax bases, tax credits, and tax rates. An entity has to use its judgment to determine whether each tax treatment should be considered independently or together. It has to decide on a particular tax treatment after considering whether the tax authority will accept such treatment. The entity has to assume that a tax authority will have knowledge of all relevant information when it examines the amounts reported to it. If facts and circumstances change, the entity has to reassess its judgments and estimates. Initial application of this interpretation had no material impact on the consolidated financial statements.

'Long-term Interests in Associates and Joint Ventures' (Amendments to IAS 28) Published in October 2017, these amendments aim to clarify that IFRS 9 has to be applied to long-term interests in an associate or joint venture that form part of the net investment in this associate or joint venture but to which the equity method is not applied. Initial application of these amendments did not have any impact on the Group's consolidated financial statements because the Group does not have such interests.

'Prepayment Features with Negative Compensation' (Amendments to IFRS 9) In October 2017, the IASB amended IFRS 9 so that financial assets with symmetric termination rights are measured at amortized cost or at fair value through other comprehensive income. The IASB also clarified that, if a financial liability is not derecognized after being modified, the carrying amount of the liability has to be adjusted and recognized in profit or loss after the modification. Initial application of this amendment did not have any material impact on the consolidated financial statements.

IFRS 16 'Leases' The IASB published IFRS 16 in January 2016. This new standard replaces IAS 17 'Leases' and the interpretations relating to them (IFRIC 4, SIC 15, and SIC 27). IFRS 16 governs the recognition, measurement, presentation, and disclosure of leases. As a result of this new accounting model, lessees must recognize assets and liabilities for all leases on the balance sheet, unless the lease term is twelve months or less or the underlying asset has a low value. DEUTZ is making use of the above exemptions and so does not recognize assets and liabilities resulting from these kinds of leasing arrangements on its balance sheet. It is not exercising the option to recognize intangible assets because of the highly complex nature of the software contracts involved and the negligible impact on earnings. Furthermore, the new leasing standard allows the lessee, at the date of initial application, to recognize right-of-use assets in an amount equivalent to the lease liabilities and to dispense with the separation of leasing and non-leasing components. DEUTZ is also making use of these options. It is electing to do so for reasons of practicality and because of the negligible impact on net income. The carrying amount of the lease liability that is being recognized is calculated using the incremental borrowing rate of interest applicable at the transition date. The DEUTZ Group applies incremental borrowing rates of interest specific to the currency and term of the lease; for long-term financing denominated in the domestic currency these are based on swap rates and for long-term financing denominated in a foreign currency they are based on swap curves. Because of how the Group companies are internally financed, the Group interest margin is added to the interest rates specific to the currency and term of the lease so that the discount rate applied covers the interest margin as a minimum. The weighted average of the incremental borrowing rate of interest applicable at the transition date was 2.0 percent.

DEUTZ is applying the new standard for the first time for the 2019 financial year, taking the modified retrospective approach. Under the modified retrospective approach, the prior-year comparative figures are not restated; instead, any adjustments may be recognized in the opening balance of retained earnings for the year of initial application. Initial application of IFRS 16 increased the balance sheet by €41.2 million due to the recognition of the right-of-use assets and corresponding lease liabilities, with the carrying amount of non-current financial debt rising by €29.7 million and of current financial debt by €11.5 million. The transition effect is primarily attributable to the recognition of right-of-use assets attaching to leased property. Applying the practical expedient set out in IFRS 16.C10 (b), an impairment test was not carried out. There were also no onerous leases as at the transition date. Leases with an indefinite term, most of which are property leases, are assumed to have a term of 60 months, which is equivalent to the detailed planning phase of the Group financial planning process.

The following table shows the reconciliation of obligations under rental agreements and leases as at December 31, 2018 to the opening balance of lease liabilities as at January 1, 2019:

€ million	
Obligations under rental agreements and leases as at Dec. 31, 2018	**42.4**
Recognition exemptions for short-term leases	–0.1
Recognition exemptions for leases with low-value assets	–1.8
Discount	–2.0
Other	2.7
Lease liabilities as at Jan. 1, 2019	**41.2**

For the period January 1 to June 30, 2019, this had the following effects on the Group's financial position and financial performance:

- EBIT +€0.1 million
- Net income –€0.3 million
- Free cash flow +€6.0 million
- Earnings per share –€0.01

As at June 30, 2019, right-of-use assets in connection with leases stood at €40.6 million, while lease liabilities amounted to €40.9 million.

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

CHANGES IN THE BASIS OF CONSOLIDATION

DEUTZ China Verwaltungs GmbH, Cologne, was founded in March 2019. The creation of this new company had no impact on the Group's financial position or financial performance. The liquidation and deconsolidation of the joint venture DEUTZ AGCO MOTORES S.A., Haedo, Argentina, was also carried out in March. Deconsolidation of this joint venture reduced operating profit (EBIT before exceptional items) and net income by €2.9 million. As part of the deconsolidation process, negative exchange differences related to the foreign currency reserve were reclassified from equity to the income statement.

SELECTED EXPLANATORY DISCLOSURES

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

1. REVENUE

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

€ million

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

Breakdown of revenue by application segment in the first half of 2018

€ million

	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Consolidation	**Total**
Construction Equipment	257.7	13.3			**271.0**
Material Handling	172.4	5.8			**178.2**
Agricultural Machinery	127.4	2.8			**130.2**
Stationary Equipment	63.1	16.5			**79.6**
Service	100.5	65.1			**165.6**
Miscellaneous/ Marine[1]	16.6	22.3	14.4	–0.3	**53.0**
Total	**737.7**	**125.8**	**14.4**	**–0.3**	**877.6**

[1] From 2019 onward, the revenue from automotive business is included in the Miscellaneous application segment. Up to and including 2018, it was shown separately. The figures for the prior-year period have been restated accordingly.

Breakdown of revenue by region in the first half of 2019

€ million

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

Breakdown of revenue by region in the first half of 2018[1]

€ million

	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Consolidation	**Total**
Europe/Middle East/Africa	473.2	76.8	8.9	–0.3	**558.6**
Americas	154.8	25.1	4.5		**184.4**
Asia-Pacific	109.7	23.9	1.0		**134.6**
Total	**737.7**	**125.8**	**14.4**	**–0.3**	**877.6**

[1] Adjusted due to a change in the regional allocation of the revenue of one big-ticket customer.

2. INCOME TAXES

There was an income tax expense of €10.0 million in the first half of 2019 compared with a tax expense of €7.1 million in the comparable period of last year. This change is primarily due to the higher current tax expenses in the reporting period resulting from the improvement in net income.

3. OTHER COMPREHENSIVE INCOME

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

€ million	**1–6/2019**			1–6/2018		
	Before taxes	**Taxes**	**After taxes**	Before taxes	Taxes	After taxes
Amounts that will not be reclassified to the income statement in the future	**–10.0**	**3.1**	**–6.9**	**–0.7**	**0.2**	**–0.5**
Remeasurements of defined benefit plans	–10.0	3.1	–6.9	–0.7	0.2	–0.5
Amounts that will be reclassified to the income statement in the future if specific conditions are met	**4.4**	**–0.1**	**4.3**	**–1.0**	**0.6**	**–0.4**
Currency translation differences	3.7	0.0	3.7	0.8	0.0	0.8
thereof profit/loss on equity-accounted investments	2.9	0.0	2.9	0.3	0.0	0.3
Effective portion of change in fair value from cash flow hedges	0.4	–0.1	0.3	–1.9	0.6	–1.3
Fair value of financial instruments	0.3	0.0	0.3	0.1	0.0	0.1
Other comprehensive income	**–5.6**	**3.0**	**–2.6**	**–1.7**	**0.8**	**–0.9**

A pre-tax loss of €1.6 million relating to cash flow hedges was reclassified to the income statement in the first six months of 2019 (H1 2018: pre-tax gain of €0.7 million).

4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditure on property, plant and equipment and on intangible assets (after deducting grants) amounted to €51.8 million in the first half of the year (H1 2018: €32.4 million). This was broken down into €39.4 million (H1 2018: €22.3 million) on property, plant and equipment and €12.4 million (H1 2018: €10.1 million) on intangible assets.

Additions to property, plant and equipment were mainly in connection with right-of-use assets resulting from property leases and with replacement investment in machinery and tools. Investing activities also focused on new test rigs for gas and electric motors. The bulk of capital expenditure on intangible assets was channeled into the development of new engines.

Capital expenditure was partly offset by depreciation and amortization of €40.4 million. Furthermore, an impairment loss on a written-down engine series was reversed in an amount of €1.8 million in the reporting period. €1.4 million of the reversal relates to capitalized development costs and €0.4 million to technical equipment and machines for an engine series that is already in production, and is mainly the result of changes in market forecasts and cost estimates. The testing of these assets to determine whether a reversal of an impairment loss might be necessary was carried out at the level of the cash-generating unit with which the engine series is associated. As at June 30, 2019, the recoverable amount of the engine series (corresponding to the value in use) amounted to €24.6 million. The pre-tax discount rate underlying the calculation was 10.3 percent. The cash-generating unit affected by the reversal of the impairment loss is assigned to the DEUTZ Compact Engines segment.

In the first half of 2018, depreciation and amortization had amounted to €37.9 million, while write-downs had totaled €2.4 million.

The following table shows the changes in the right-of-use assets in connection with leases in the reporting period, broken down by type of asset:

	Land, leasehold rights and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Total
€ million				
Balance at Jan. 1, 2019	**32.9**	**1.6**	**6.7**	**41.2**
Currency translation differences	0.1	0.0	0.0	0.1
Additions	4.8	0.0	1.0	5.8
Disposals	0.0	0.0	–0.2	–0.2
Depreciation and impairment	–4.8	–0.4	–1.1	–6.3
Balance at Jun. 30, 2019	**33.0**	**1.2**	**6.4**	**40.6**

5. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In accordance with the agreement from 2017 regarding the sale of the land at our former Cologne-Deutz site, the sale of a small part of this land was recognized in the second quarter of 2019. The carrying amount of €0.4 million for the land classified as held for sale was derecognized in the process. The gain on this transaction, which totaled €9.3 million, was reported under exceptional items.

6. FINANCIAL DEBT

€ million	**Jun. 30, 2019**	Dec. 31, 2018
Non-current	41.0	19.3
Current	33.8	19.8
Total	**74.8**	**39.1**

Following initial application of IFRS 16 ‘Leases’, non-current and current liabilities rose by €29.4 million and €11.5 million respectively due to the recognition of lease liabilities as at June 30, 2019.

7. OTHER PROVISIONS AND CONTINGENT ASSETS

€ million	**Jun. 30, 2019**	Dec. 31, 2018
Non-current	37.3	36.2
Current	67.5	65.4
Total	**104.8**	**101.6**

As at June 30, 2019, current other provisions included expenses of €2.5 million that are anticipated in connection with the product recall started by the Torqeedo companies in June 2019.

The former owners of the Torqeedo companies are contractually obliged to reimburse the costs arising from this product recall. However, it is not yet possible to confirm with the required certainty that this reimbursement is enforceable, which is why it was not recognized as at June 30, 2019.

OTHER INFORMATION

FINANCIAL INSTRUMENTS

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

Financial instruments (assets)

Jun. 30, 2019	Measured at amortised cost	Measured at fair value		Assets not within the scope of IFRS 9	
€ million		Through other comprehensive income	Through profit or loss	Carrying amount	Carrying amount on the balance sheet
Non-current financial assets	**0.0**	**1.4**	**13.6**	**2.4**	**17.4**
Current financial assets	**221.0**	**0.1**	**23.0**	**23.9**	**268.0**
Trade receivables	148.1	0.0	23.0	0.0	171.1
Other receivables and assets	15.9	0.1	0.0	23.9	39.9
Cash and cash equivalents	57.0	0.0	0.0	0.0	57.0

Financial instruments (assets)

Dec. 31, 2018	Measured at amortised cost	Measured at fair value		Assets not within the scope of IFRS 9	
€ million		Through other comprehensive income	Through profit or loss	Carrying amount	Carrying amount on the balance sheet
Non-current financial assets	**0.0**	**1.2**	**12.8**	**2.7**	**16.7**
Current financial assets	**288.8**	**0.0**	**15.7**	**28.8**	**333.3**
Trade receivables	141.6	0.0	15.7	0.0	157.3
Other receivables and assets	14.4	0.0	0.0	28.8	43.2
Cash and cash equivalents	132.8	0.0	0.0	0.0	132.8

Financial instruments (liabilities)

Jun. 30, 2019	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IFRS 9	
€ million	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial liabilities	**13.5**	**0.1**	**0.0**	**30.0**	**43.6**
Financial debt	11.6	0.0	0.0	29.4	41.0
Other liabilities	1.9	0.1	0.0	0.6	2.6
Current financial liabilities	**304.6**	**0.5**	**0.2**	**21.6**	**326.9**
Financial debt	20.7	0.0	0.0	13.1	33.8
Trade payables	222.3	0.0	0.0	0.0	222.3
Other liabilities	61.6	0.5	0.2	8.5	70.8

Financial instruments (liabilities)

Dec. 31, 2018	Measured at amortised cost	Measured at fair value		Liabilities not within the scope of IFRS 9	
€ million	Financial liabilities	Derivatives designated as hedging instruments (recognised as other comprehensive income/loss)	Held-for-trading financial liabilities	Carrying amount	**Carrying amount on the balance sheet**
Non-current financial liabilities	**20.4**	**0.1**	**0.0**	**2.3**	**22.8**
Financial debt	17.7	0.0	0.0	1.6	19.3
Other liabilities	2.7	0.1	0.0	0.7	3.5
Current financial liabilities	**302.3**	**0.7**	**0.1**	**18.5**	**321.6**
Financial debt	19.8	0.0	0.0	0.0	19.8
Trade payables	214.6	0.0	0.0	0.0	214.6
Other liabilities	67.9	0.7	0.1	18.5	87.2

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

€ million	Jun. 30, 2019		Dec. 31, 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets	**221.0**	**221.0**	**288.8**	**288.8**
Trade receivables	148.1	148.1	141.6	141.6
Other receivables and assets	15.9	15.9	14.4	14.4
Cash and cash equivalents	57.0	57.0	132.8	132.8
Financial liabilities	**318.1**	**317.7**	**322.7**	**323.5**
Financial debt – liabilities to banks	32.3	31.9	37.5	38.3
Trade payables	222.3	222.3	214.6	214.6
Other liabilities	63.5	63.5	70.6	70.6

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

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

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

Jun. 30, 2019

€ million

	Carrying amount	**Fair value**	Level 1	Level 2	Level 3
Financial assets					
Loan granted	11.5	11.5	0.0	0.0	11.5
Securities – recognised through other comprehensive income	1.4	1.4	1.4	0.0	0.0
Securities – recognised through profit or loss	2.1	2.1	2.1	0.0	0.0
Currency forwards – designated as hedging instruments	0.1	0.1	0.0	0.1	0.0
Trade receivables	23.0	23.0	0.0	0.0	23.0
Financial liabilities					
Interest-rate swaps	0.1	0.1	0.0	0.1	0.0
Currency forwards – designated as hedging instruments	0.5	0.5	0.0	0.5	0.0
Currency forwards – held for trading	0.2	0.2	0.0	0.2	0.0
Financial debt	32.3	31.9	0.0	0.0	31.9

Dec. 31, 2018

€ million

	Carrying amount	**Fair value**	Level 1	Level 2	Level 3
Financial assets					
Loan granted	11.2	11.2	0.0	0.0	11.2
Securities – recognised through other comprehensive income	1.2	1.2	1.2	0.0	0.0
Securities – recognised through profit or loss	1.6	1.6	1.6	0.0	0.0
Trade receivables	15.7	15.7	0.0	0.0	15.7
Financial liabilities					
Interest-rate swaps	0.1	0.1	0.0	0.1	0.0
Currency forwards – designated as hedging instruments	0.7	0.7	0.0	0.7	0.0
Currency forwards – held for trading	0.1	0.1	0.0	0.1	0.0
Financial debt	37.5	38.3	0.0	0.0	38.3

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

As at June 30, 2019, the loan granted, which is recognized at fair value, had a nominal value of €14.1 million that included accrued interest of €0.3 million. On the basis of the contractual agreement, the loan was recognized at fair value through profit or loss in an amount of €11.5 million as at the reporting date. Measurement as at June 30, 2019 was carried out with the aid of a net present value method. The estimated future cash flows were discounted to their present value using a discount rate of 11.0 percent that reflects the prevailing market forecasts of the time value of the money and management's assessment of the specific credit risk. The results of the measurement as at June 30, 2019 did not have any material effect on profit or loss in the reporting period.

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

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

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

SEGMENT REPORTING

Information about the segments of the DEUTZ Group for the first half of 2019 and the first half of 2018 is shown in the following table:

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

1–6/2018	DEUTZ Compact Engines	DEUTZ Customised Solutions	Other	Total segments	Reconciliation	DEUTZ Group
€ million						
External revenue	737.7	125.5	14.4	877.6	0.0	877.6
Intersegment revenue	0.0	0.3	0.0	0.3	–0.3	0.0
Total revenue	**737.7**	**125.8**	**14.4**	**877.9**	**–0.3**	**877.6**
Operating profit/loss (EBIT before exceptional items)	20.7	17.9	–5.2	33.4	0.0	33.4

Reconciliation from overall profit of the segments to net income

€ million

	1–6/2019	1–6/2018
Overall profit of the segments	**47.2**	**33.4**
Reconciliation	0.0	0.0
EBIT before exceptional items	**47.2**	**33.4**
Exceptional items	9.3	0.0
EBIT	**56.5**	**33.4**
Interest expenses, net	–1.2	–1.0
Net income before income taxes	**55.3**	**32.4**
Income taxes	–10.0	–7.1
Net income	**45.3**	**25.3**

RELATED PARTY DISCLOSURES

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

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

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

	Goods and services provided		Other expenses in connection with goods and services received		Receivables		Payables	
€ million	**1–6/2019**	1–6/2018	**1–6/2019**	1–6/2018	**Jun. 30, 2019**	Dec. 31, 2018	**Jun. 30, 2019**	Dec. 31, 2018
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Joint ventures	0.0	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	0.5	0.4	2.4	2.4	0.1	0.1	3.6	3.2
Total	**0.5**	**3.3**	**2.4**	**2.4**	**0.1**	**0.1**	**3.6**	**3.2**

The decrease in goods supplied and services rendered to joint ventures compared with the corresponding period of 2018 is mainly attributable to the sale of our joint venture DEUTZ (Dalian) Engine Co., Ltd. in November 2018.

As at June 30, 2019, impairment losses of €9.9 million (December 31, 2018: €10.7 million) had been recognized on €10.0 million (December 31, 2018: €10.8 million) of the Company's receivables due from other equity investments. The impairment of receivables due from other investments did not result in any expense in the period under review (H1 2018: €0.2 million).

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

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

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

Cologne, July 26, 2019

DEUTZ Aktiengesellschaft
The Board of Management

Dr. Ing. Frank Hiller

Dr. Andreas Strecker

Michael Wellenzohn

RESPONSIBILITY STATEMENT

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

Cologne, July 26, 2019

DEUTZ Aktiengesellschaft
The Board of Management

Dr. Ing. Frank Hiller

Dr. Andreas Strecker

Michael Wellenzohn

REVIEW REPORT

To DEUTZ Aktiengesellschaft, Cologne,

We have reviewed the condensed consolidated interim financial statements - comprising the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and selected explanatory notes - and the interim group management report of DEUTZ Aktiengesellschaft, Cologne, for the period from 1 January 2019 to 30 June 2019 which are part of the half-year financial report pursuant to § (Article) 115 WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

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

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Cologne, July 26, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki	ppa. Gerd Tolls
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FINANCIAL CALENDAR

2019	
August 1	Interim report for the first half of 2019 Conference call with analysts and investors
November 7	Interim management statement for the first to third quarter of 2019 Conference call with analysts and investors
2020	
March 12	2019 annual report Annual results press conference with analysts and investors
May 7	Interim management statement for the first quarter of 2020 Conference call with analysts and investors
May 14	Annual General Meeting in Cologne
August 11	Interim report for the first half of 2020 Conference call with analysts and investors
November 10	Interim management statement for the first to third quarter of 2020 Conference call with analysts and investors

CONTACT

DEUTZ AG
Ottostrasse 1
51149 Cologne (Porz-Eil), Germany

Investor Relations
Tel: +49 (0)221 822 2491
Fax: +49 (0)221 822 15 2491
Email ir@deutz.com
Website www.deutz.com

Public Relations
Tel: +49 (0)221 822 2493
Fax: +49 (0)221 822 15 2493
Email: presse@deutz.com
Website: www.deutz.com

CREDITS

Published by
DEUTZ AG
51057 Cologne, Germany

Concept and layout
Kirchhoff Consult AG Hamburg, Germany

This half-year report is also available in German.
It is only available in digital form. This half-year report was published on August 1, 2019.

DEUTZ AG
51057 Cologne, Germany
www.deutz.com