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Group Management Report

Group Management Report

Our Strategy

The agricultural equipment sector continues to be strongly influenced by long-term trends: ongoing population growth is resulting in ever-increasing demand for food. Rising need for raw materials in both nutrition and energy generation is also resulting in a major increase in biomass production. At the same time, the availability of freshwater resources and agricultural land is falling. Droughts and natural disasters are becoming increasingly frequent, and cultivation methods are changing. This all means that supplying agricultural commodities is becoming ever more challenging. Highly efficient agricultural products and services can help boost productivity to generate greater yields from less land.

The global economic system as we know it is undergoing transformation. This is also affecting agriculture. Globalization and digitalization have become key issues in the industry, alongside agricultural developments. The spread of protectionism and disruptive policy are posing challenges to CLAAS, which over time has built strong international networks and relies on global value chains. Digitalization continues to offer a major opportunity to master the requirements of the future by developing new solutions. All of these driving forces, whether new or old, will influence CLAAS as a company in the future. Even in a volatile environment, the goal remains to achieve profitable growth. CLAAS has focused its strategy on the following four strategic focal points so that it can take on a leading global role as a manufacturer of agricultural equipment moving forward.

Global growth in core business

CLAAS aims to expand its global market position across all relevant machine segments. New, innovative tractor, combine harvester, forage harvester, and forage harvesting machinery are making a key contribution to this. Besides the core market in Europe, the growth strategy is also focused on North America, Eastern Europe, and Asia. CLAAS operates with the quality standard of a premium manufacturer and develops individual and regional offerings. Thanks to the expansion of the global dealer network and the use of new digital

opportunities, CLAAS will be able to respond in an even quicker and more targeted manner to customer requirements. Apart from ensuring a comprehensive supply of spare parts to customers at short notice, used machines trading, equipment maintenance contracts, and financing business represent our core business.

Driving forward technologies of the future and new areas of business

Trends such as digitalization, automation, alternative drivetrains, and agricultural services will have a long-term influence on the agricultural industry and therefore also on CLAAS business. Connected combine harvesters, tractors and digitalized services are becoming an increasingly important selling point. Connectivity in CLAAS machines also offers the basis for customer-centric services, such as remote services or automatic documentation. CLAAS is the technology leader in the industry thanks to its CEMOS AUTOMATIC system for combine harvesters and tractors. It continues to work towards automating processes in machines and to research into alternative drivetrain solutions. In addition, CLAAS is also developing new, digital business models. To do so, CLAAS is entering into external partnerships with fledgling companies in order to develop valuable customer solutions and complement its own internal solutions where appropriate.

Increasing operating excellence

As an independent family business, CLAAS aims to compete with significantly larger players on the global stage. The Company therefore intends to set the benchmark in terms of profitability, and not just in product development and innovation. Significant investments are being made in topics that will determine the future. In order to ensure that these investments are profitable, operating excellence is being increased across all divisions and functions. As an example, CLAAS will continue to modularize its products to reduce complexity in development and production and boost efficiency. The systematic leveraging of company-wide synergies; the optimization of value creation within the global production network; the

reduction of selling, general, and administrative costs; and the digital transformation of the CLAAS organization are also contributing to improvements in operating excellence.

Strengthening the global team

The long-term success of the CLAAS Group is reliant on the levels of qualification and motivation of its employees. Increasing globalization and digitalization are exposing specialists and management teams to new challenges. CLAAS is focusing on establishing an international management team to take on these challenges proactively. In addition, CLAAS is investing significantly in employee training to secure and develop the relevant expertise.

Industry Trends

Economic frameworks

According to estimates by the International Monetary Fund (IMF), the global economy responded to the coronavirus pandemic with a negative growth rate of 4.4% in calendar year 2020, on the back of external supply and demand shocks and precautionary saving among consumers (prior year: 2.8%; as of October 2020). Regional developments varied significantly depending on economic situations before the crisis and responses to the pandemic by individual countries. In the euro zone, the IMF expects the growth rate to drop to -8.3% (prior year: 1.3%). Alongside the pandemic, a significant decline in available income due to the – at times – sharp fall in the price of oil had a further adverse effect on the economy, particularly for oil-exporting countries. The rate of growth in Russia, for example, is anticipated to fall from 1.3% in the prior year to -4.1%. In terms of the U.S. economy, full-year growth in 2020 is expected to stand at -4.3%, down from 2.2% in the prior year, as a result of the pandemic. Only China is on course to record a positive growth rate in 2020, at 1.9% (prior year: 6.1%).

In 2019, the global agricultural equipment industry (including municipal, forestry, and garden equipment) achieved a market volume of €111 billion, according to estimates from the German

Due to the growth of international subsidiaries and activities, CLAAS is in a phase of constant evolution. That is why CLAAS will continue its organizational development and regularly review and optimize structures and processes.

The international presence of CLAAS is growing, and so is the number and diversity of employees. A strong corporate culture is the key to ensure that the connective elements remain at the forefront across national and cultural borders. Diversity is an excellent opportunity for an international company to position itself successfully on the global stage.

Mechanical Engineering Industry Association (VDMA), continuing the prior-year growth trend (prior year: €109 billion). By contrast, the VDMA expects a slight decline in the industry's sales in real terms in 2020.

In crop year 2019/20, which, in contrast to the CLAAS fiscal year, ended on June 30, global grain production (including rice) increased year on year to 2,671 million metric tons according to the U.S. Department of Agriculture (USDA). On the back of a slight dip in the prior year, wheat production climbed by 4.6% to a new record-breaking level of 764 million metric tons. Corn production, on the other hand, remained roughly stable at 1,116 million metric tons.

The increase in wheat production resulted in inventories rising again following the stagnation in crop year 2018/19. Against this backdrop, prices hovered above the five-year average for the most part of the year.

Dairy production volume climbed by 1.3% in 2019 to 852 million metric tons. Milk prices developed positively at the start of the past fiscal year and were significantly higher than the five-year average.

Regional industry developments

The outlook for the current fiscal year 2020 was relatively cautious from day one, due in part to the dry weather conditions recorded in some regions over the past few years. This forecast was confirmed in European core markets up to the end of the early sales campaign in March. The spread of COVID-19 in Europe initially created additional uncertainty. However, taken as a whole, the agricultural equipment industry was actually not as affected by the pandemic as the rest of the mechanical engineering industry, due to the more-optimistic crop yield outlook for the remainder of the crop year as well as other factors. Sales of agricultural equipment in Europe remained on par with the – admittedly relatively weak – prior-year level.

In Eastern Europe, the agricultural equipment market saw varied performance from region to region. The solid grain harvest in Russia in 2019 stimulated growth in agricultural equipment sales in the current year, whereas the agricultural equipment market in Ukraine experienced a decline in growth due to the planned liberalization of the market for agricultural

land and the resulting focusing on real estate investments rather than equipment purchases.

The North American agricultural equipment market saw a slight decline after a lower grain harvest in 2019. Additional uncertainty caused by the trade conflict with China had a negative impact on farmers' planning security and dampened demand for agricultural equipment.

Latin America has developed into a key trading partner for China when it comes to agricultural products. This trend has also given impetus to the agricultural equipment market, which remained at a high level.

Agricultural equipment markets in Asia developed very positively overall. Following a temporary dip in demand due to COVID-19, China was able to increase its sales of agricultural equipment beyond the prior-year level. Sales of agricultural equipment in India were up in the wake of favorable weather conditions and subsidy programs. The agricultural mechanization trend observed over the past few years continued in India.

Impact of and Response to the Coronavirus Crisis

CLAAS already registered key warning signs of the pandemic from China in February. This was followed by initial surveying of suppliers and sub-suppliers regarding the current and future supply situation. As a result, CLAAS received the first risk report on the impact of the coronavirus pandemic in China on material purchasing and production in other markets even before the first case of COVID-19 was diagnosed in Germany. The risk report laid the foundations for efficient procurement activities in the coronavirus crisis, which played a key role in bringing production back online quickly and ensuring consistent supply capacities.

Crisis management teams were set up at locations outside of China by the end of February. From mid-March on, the teams met on a daily basis, and in some cases several times a day, to provide up-to-date assessments of the situation and define and communicate hygiene measures and protection concepts in close collaboration with all divisions. As the number of infections rose, all CLAAS employees had sufficient access to face masks and disinfectant. A higher degree of separation between teams and shifts in production was also ensured, and points of

contact with indirect divisions and functions, visitors, and employees of logistics companies were drastically reduced and controlled. As a further measure, CLAAS arranged for more indirect employees to work from home starting in March. Thanks to the rapid and targeted response from IT, work was able to continue practically without a hitch, even in the case of challenging research and development projects. The situation gradually began to normalize from the second half of the year on, while compliance with the necessary protective measures was ensured.

Sales, service, and the CLAAS Academy also went online, as customer visits and in-person training were not possible for many weeks and business travel throughout the CLAAS Group was severely restricted. Apps and online video conferencing helped CLAAS keep in touch with its customers.

Series production at almost all CLAAS production sites was forced to shut down for anything from a few days to multiple weeks, primarily due to production stoppages at suppliers and sub-suppliers, but also on account of government-imposed

Industry Trends
Impact of and Response to the Coronavirus Crisis
Financial Performance

lockdowns. The sole exceptions were the locations in Bad Saulgau, Germany, and Omaha, USA. By contrast, shipments of machines and components continued at all production sites and were given top priority ahead of the upcoming crop harvest and in view of largely stable demand. Series production was restored within a relatively short period of time thanks to proactive supplier management and, in some cases, based on special approvals for essential businesses.

Close collaboration with transportation companies and a number of special approvals ensured that key suppliers from Italy were able to continue delivering parts to CLAAS production sites during the long period of lockdown there. This was thanks to a strict program of daily supplier monitoring. At the same time, production programs were constantly updated and adjusted in line with the latest developments.

Financial Performance

Net sales by region ↗ 1

The CLAAS Group generated net sales of €4,042.3 million in the past fiscal year, up 3.7% on the prior year. This meant that CLAAS was able to increase its sales in spite of the coronavirus pandemic. Sales developments in markets relevant to CLAAS varied and partially offset each other. Overall, the change in important exchange rates, such as U.S. dollars or Russian rubles, had no significant impact on sales. The share of sales generated outside Germany amounted to 80.1% (prior year: 79.5%).

Net sales in Germany totaled €805.5 million (prior year: €800.6 million). The slight rise in sales was predominantly due to service and parts business and sales of used machinery. In addition, sales of forage harvesting machines and telehandlers also rose year on year.

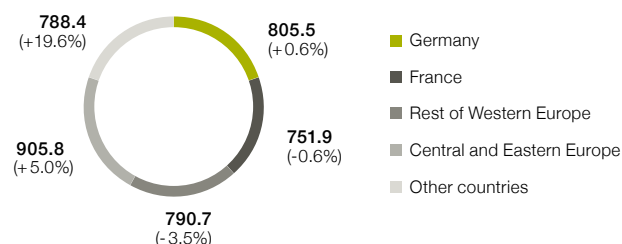
At €751.9 million, net sales generated in France were down on the prior-year figure of €756.5 million. This decline was primarily the result of the market-related decline in sales of new machines, and particularly forage harvesters, telehandlers, and wheel loaders. Business involving customer service, spare parts, and accessories developed positively. CLAAS was able to maintain its position on the combine harvester and baler market.

Spare parts business at CLAAS proved to be particularly robust in this period. Supplies to customers were maintained at the highest possible level due to intelligent shift management and clear prioritization of spare parts positions. A pilot project was also set up to enlist the help of students in the repackaging of parts at short notice. Last year's completion of the expanded central spare parts warehouse in Hamm, which was able to process up to 17,000 positions every day, also benefited CLAAS in the crisis.

The measures outlined above, coupled with the stable market conditions, ensured that CLAAS successfully minimized the adverse effects of the coronavirus crisis on its financial performance.

1 - Net Sales by Region

in € million/in % compared to prior year



Sales generated in the Rest of Western Europe declined to €790.7 million (prior year: €819.1 million). The decline in sales was particularly marked in the United Kingdom on account of widespread flooding in the country and uncertainty caused by Brexit. Sales also declined in Italy due to the massive spread of coronavirus in the north of the country, which is extremely important to the agriculture industry. By contrast, demand for CLAAS products developed very positively compared to the prior year, particularly in Scandinavian countries and in Spain.

At €905.8 million, net sales in Central and Eastern Europe were up 5.0% from the prior-year figure of €862.8 million. Demand for professional agricultural equipment, particularly for CLAAS

products, remains high. The rise in sales was predominantly due to increased sales of combine harvesters, forage harvesters, and tractors. Russia, Poland, and Romania contributed the highest sales volume within this region. The positive year-on-year sales trend was also due to the increase in sales volumes from tenders in the Central Asia region.

At €788.4 million, net sales generated outside of Europe were up 20% year on year (prior year: €659.0 million). Significant increases were generated in North America through sales of forage harvesters, combine harvesters, and tractors. This development allowed CLAAS to expand its position on the large combine harvester market, in particular as a result of the launch of the new LEXION series. CLAAS was able to increase its sales in Argentina in spite of the difficult political and economic conditions there. In addition, sales of agricultural equipment increased in China on the back of a year-on-year rise in customers' willingness to invest. The U.S., Canada, and China contributed the highest sales volumes in this region.

Income ↗ 2

Gross profit on sales improved by €59.8 million year on year, which resulted in a rise in the gross profit margin from 19.5% to 20.3%. Sales margins remained stable overall, while savings in purchasing generated positive effects on cost of sales. In addition, increased spare parts sales volumes led to a relative improvement in the gross profit margin.

Selling, general, and administrative expenses remained on par with the prior year and therefore developed at a disproportionately lower rate compared to sales. The increase in expenses for IT and digitalization projects was counteracted by a fall in costs for communication, marketing, and travel.

Research and development costs rose to a new record high at CLAAS. They included the development and renewal of harvesting machinery and tractors, investments in electronics architecture for machine control and connectivity, and expenses for the digitalization of agricultural processes. Please refer to the section on "Research and Development" for more information.

Other operating income, net, saw a decline of €46.6 million year on year. Other operating income rose significantly in 2019 to €127.3 million due to a variety of one-off effects. At €94.0 million, it remains on par with the average observed in prior years. The rise in other operating expenses was partly due to the conservative assessment of asset valuation against the background of the uncertainty caused by the coronavirus pandemic.

Income from investments, net, mainly includes the respective share of income from the financing and leasing business of the CLAAS Financial Services companies.

2_Income Statement (Summary)

in € million	2020	2019	Change
Net sales	4,042.3	3,898.0	144.3
Cost of sales	-3,222.6	-3,138.1	-84.5
Gross profit on sales	819.7	759.9	59.8
Selling, general and administrative expenses	-441.9	-440.1	-1.8
Research and development expenses	-226.2	-222.4	-3.8
Other operating income, net	4.7	51.3	-46.6
Operating income	156.3	148.7	7.6
Income from investments, net	18.7	13.3	5.4
Financial result	-16.9	-26.3	9.4
Income before taxes	158.1	135.7	22.4
Net income	107.1	96.3	10.8

Financial Performance
Cash Position

The improvement in the financial result is mainly due to the development of foreign exchange gains and losses. This trend was mainly due to the favorable development of key currency pairs over parts of the year, particularly in the case of the U.S. dollar, from which the Company benefited thanks to the flexible hedging strategy.

In spite of the coronavirus crisis, income before taxes exceeded our expectations by climbing €22.4 million year on year. This positive trend was primarily due to the significant improvement in gross profit. The return on sales amounted to 3.9% (prior year: 3.5%).

Cash Position

Liquid assets ↗ 3

As of the reporting date, the CLAAS Group's liquidity amounted to €907.7 million (prior year: €669.7 million). Liquid assets are mainly held as fixed-term deposits, money market securities, and investment funds. The increase in liquidity was primarily due to the decline in working capital.

3_Net Liquidity

in € million	Sept. 30, 2020	Sept. 30, 2019	Change
Cash and cash equivalents	524.1	491.3	32.8
Securities	383.6	178.4	205.2
Liquid assets	907.7	669.7	238.0
Financial liabilities*	759.3	650.5	108.8
Net liquidity	148.4	19.2	129.2

* Excluding derivative financial instruments.

Financial liabilities and credit facilities

The U.S. private placement, the "Schuldscheindarlehen" (German private placement) issued in 2015, and another "Schuldscheindarlehen" issued in euros in a total of four tranches in the current financial year were the largest individual financial liabilities items. The rise in financial liabilities was predominantly due to the first-time application of the new

IFRS 16 lease standard and the lease liabilities recognized in this context.

On the balance sheet date, the CLAAS Group had access to credit facilities from banks as well as a flexible syndicated loan totaling €680.8 million for general financing purposes, €639.8 million of which was unutilized.

Further information on the financial liabilities and the financial risk management are presented in the Notes 25 and 35 to the consolidated financial statements.

Off-balance-sheet measures

CLAAS uses the asset-backed securitization program (ABS program) to sell trade receivables to a structured entity on a revolving basis. Due to the seasonal nature of sales realization in the agricultural equipment industry, substantial financing is needed during the course of the year. By contrast, at the end of the fiscal year, the relatively lower level of capital tied up in working capital generally leads to a high liquidity level. The ABS program helps to effectively reduce seasonal liquidity fluctuations. The volume of receivables transferred amounted to €175.1 million as of September 30, 2020 (prior year: €232.8 million).

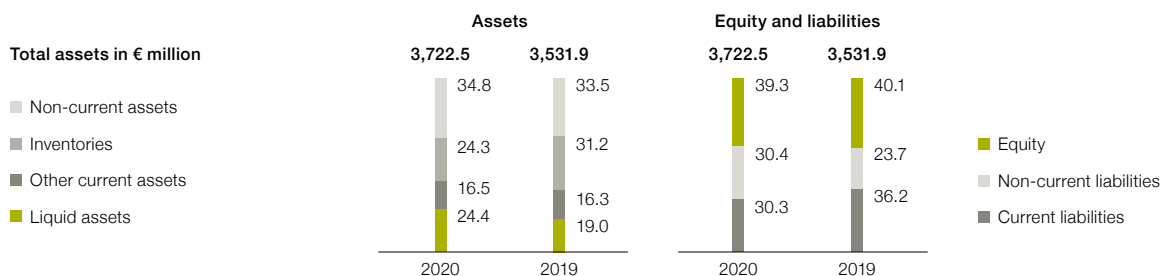
Asset and capital structure ↗ 4

Non-current assets were covered by long-term financing, consisting of equity and non-current liabilities, at a ratio of 200.5% as of the balance sheet date (prior year: 190.6%). Non-current assets plus 50.0% of inventories were funded by

long-term financing at a ratio of 148.5% (prior year: 130.0%). These figures testify to the CLAAS Group's sound capital structure.

4_Balance Sheet Structure

in %



Cash Flows ↗ 5

5_Statement of Cash Flows (Summary)

in € million	2020	2019	Change
Cash and cash equivalents at beginning of year	491.3	609.7	-118.4
Cash flows from operating activities	478.4	45.9	432.5
Cash flows from investing activities	-376.6	-164.1	-212.5
Cash flows from financing activities	-49.3	-10.1	-39.2
Effect of foreign exchange rate changes on cash and cash equivalents	-19.7	9.9	-29.6
Change in cash and cash equivalents	32.8	-118.4	151.2
Cash and cash equivalents at end of year	524.1	491.3	32.8

The significant rise in cash inflows from operating activities was mainly due to the lower level of funds tied up in working capital resulting from the decrease in inventories. In addition, cash inflow due to a year-on-year increase in current provisions also had a positive effect.

Cash outflow from investing activities predominantly comprised outflow from capital expenditure. Investment in short-term securities was also increased compared to the prior year and led to an outflow of cash and cash equivalents totaling €206.3 million.

Cash outflow from financing activities mainly resulted from dividend payments and the repayment of lease liabilities, which

was accounted for the first time due to the initial application of IFRS 16.

The development of the free cash flow is as follows: ↗ 6

6_Free Cash Flow

in € million	2020	2019	Change
Cash flows from operating activities	478.4	45.9	432.5
Net capital expenditure in intangible assets, property, plant and equipment, borrowings, and investments	-170.3	-184.1	13.8
Free cash flow	308.1	-138.2	446.3

Cash Position

Capital expenditure ↗ 7

Capital expenditure came to €187.2 million in the reporting year. The additions mainly relate to investments in the construction, expansion, and modernization of production and sales sites, in new technologies, and in innovative products. The ratio of capital expenditure to sales stood at 4.6% (prior year: 4.7%).

Investments in the construction, expansion, and modernization of production and sales sites were mainly made in Germany, Russia, the United Kingdom, and France.

In Harsewinkel, Germany, work began on the realization of the SynPro 2020 modernization project. This investment ensures the future competitiveness of the Harsewinkel production site. The project centers on merging the two separate combine harvester assembly lines into one joint production line, with the switch to a modular construction concept for combine harvesters playing a key role. In fiscal year 2020, an automated guided vehicle system was implemented and new test bays were installed. New foundations laid in preparation for the changes to combine harvester assembly, which include the raising of the production hall ceilings in summer 2021.

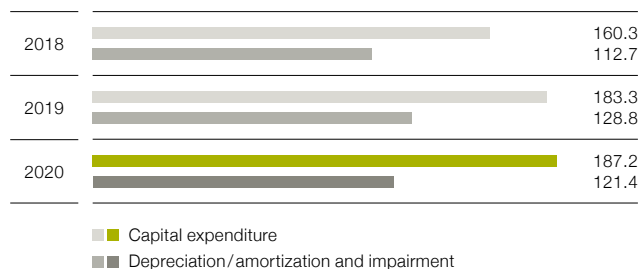
In Le Mans, France, CLAAS wrapped up the comprehensive modernization of its tractor production on schedule. This project involved renewing technical equipment, but also took into consideration employees' opinions and views on design and procedures with the help of virtual reality. Entire processes, such as internal logistics or filling up machines with operating liquids, were completely redesigned. Tractors are now transported from the first assembly station to the last by automated guided vehicles.

CLAAS is also continuing to invest in the production site in Krasnodar, Russia. This project involves expanding metal processing operations and extending the conveyor system in the paint shop. Besides the expansion of the surface treatment center, an additional logistics hall will also be constructed with new storage areas.

The redesign of the headquarters of CLAAS U.K. Ltd. in Saxham, United Kingdom, was completed this year. The work involved building a new Technoparc, which serves as an exhibition center for customers.

7_Capital Expenditure, Depreciation/Amortization, and Impairment

in € million



Construction of a new sales center in Ymeray, France, was also completed on schedule. The new site will pool sales activities in France. In this new technology center, CLAAS has constructed an efficient and productive working environment that provides the perfect backdrop for meetings with customers, sales partners, and other interested parties.

In addition, CLAAS is investing in the expansion and digitalization of business processes at all levels of the sales organization. New systems and applications are set to enhance communication among CLAAS, dealers, and customers.

Investments in the testing and production of new products made within the scope of the extensive development program account for a substantial share of capital expenditure.

At the end of the fiscal year, CLAAS had financial obligations totaling €25.5 million relating to future capital expenditure.

Financial Position ↗ 8

8_Balance Sheet (Summary)

in € million	Sept. 30, 2020	Sept. 30, 2019	Change
Assets			
Intangible assets	289.2	267.4	21.8
Property, plant and equipment	561.6	541.8	19.8
Right of use assets	88.1	–	88.1
Investments accounted for using the equity method	156.8	142.0	14.8
Inventories	905.8	1,103.5	-197.7
Trade receivables	373.8	355.5	18.3
Liquid assets	907.7	669.7	238.0
Other assets	439.5	452.0	-12.5
Total assets	3,722.5	3,531.9	190.6
Equity and liabilities			
Equity	1,464.1	1,417.3	46.8
Financial liabilities	759.3	650.5	108.8
Provisions	979.9	960.9	19.0
Trade payables	233.1	235.5	-2.4
Other liabilities	286.1	267.7	18.4
Total equity and liabilities	3,722.5	3,531.9	190.6

Total Group assets rose by €190.6 million year on year to €3,722.5 million compared to September 30, 2019. The first-time capitalization of right-of-use assets from leases of €88.1 million was one main reason for the increase. Please refer to Note 2 to the consolidated financial statements for further details on the first-time application and the effects of IFRS 16. The decline in inventories led to a corresponding rise in liquid assets.

Intangible assets increased significantly year on year to €289.2 million from the high level recorded in the prior year. This was caused primarily by the rise in development costs recognized as an asset by €13.3 million to €232.5 million.

The rise in investments accounted for using the equity method was primarily due to the earnings contributions of CLAAS Financial Services companies.

The significant fall in inventories was partly due to series production closures in March and April 2020 in response to the coronavirus pandemic and played a key role in the decline in working capital. Trade receivables and payables developed

in opposing directions, which on balance slightly reduced the working capital decrease. Engines bunkered due to new legal standards on exhaust emissions were reduced according to plan. The share of working capital to total assets dropped significantly to 26.7%.

Working capital developed as follows: ↗ 9

9_Working Capital

in € million

2018	1,012.5
2019	1,170.0
2020	994.7

Other assets declined by €12.5 million to €439.5 million. They mainly comprise deferred taxes, tax receivables, and assets relating to the ABS transaction.

The change in the equity of the CLAAS Group involves a variety of factors, some of which with opposing effects. Net income of €107.1 million, which corresponded to return on

Financial Position
Research and Development

equity of 7.3%, had a positive effect. However, equity was decreased in fiscal year 2020 due to the dividend payment and the effects of currency translation recognized directly in equity. Given that equity did not rise as sharply as total assets, which were impacted predominantly by IFRS 16, the equity ratio declined marginally to 39.3% (prior year: 40.1%).

The increase in financial liabilities was largely driven by the first-time recognition of lease liabilities.

Research and Development

In the reporting year, research and development costs fell slightly by 2.5% to €237.4 million \nearrow 10. Activities were focused on new models and the further development of harvesting machinery and tractors. Investments in electronics architecture for machine control and connectivity, as well as in the digitalization of agricultural processes, also continue to account for a significant share of the CLAAS Group's total research and development costs.

Innovative products and developments

CLAAS started production of its first crawler track tractors with full suspension in the form of the AXION 960 TERRA TRAC and the AXION 930 TERRA TRAC. Its key innovation is the inclusion of the suspended TERRA TRAC crawler track system, which is based on the technology currently in use with combine harvesters. The vehicle continues to generate high traction in any conditions, meaning that machines pulled by or attached to the tractor can provide a high level of performance even at low speeds. AXION 900 TERRA TRAC combines the additional traction and soil protection of a tracked tractor with the more comfortable drive characteristics of a conventional tractor.

The new XERION TRAC TS is now available with four crawler track units and in compliance with the Stage V emissions standard. The new track system increases the machine's footprint by 25% compared to the maximum possible wheeled version, providing secure traction and reducing the impact on the soil. The cab has the same armrest featured in the AXION and ARION models, complete with CMOTION multi-function control lever and CEBIS touchscreen. The 12" touchscreen monitor is easy to navigate, displays all key machine parameters in one place, and allows drivers to switch between steering, transmission, and hydraulic settings at ease.

The rise in provisions was due to a variety of partially opposing effects. Tax provisions declined, but there was a rise in other provisions.

In addition to the silent partnership, other liabilities mainly include deferred income, other taxes, and liabilities to investments.

10_Research and Development

		2020	2019
Research and development costs (total)	in € million	237.4	243.6
Research and development cost ratio	in %	5.9	6.2
Development costs recognized as an asset	in € million	52.6	53.3
R&D capitalization ratio	in %	22.2	21.9
Amortization/impairment of development costs recognized as an asset	in € million	41.5	32.1
Share of workforce involved in research and development at the CLAAS Group	in %	12.4	12.5
Active patents	Number	4,307	4,200

CLAAS has also expanded the SCORPION series with the addition of the 960 model with 6.5 metric ton lifting capacity and a lifting height of 9.0 meters. The new SCORPION 960 boasts optimum load handling and productivity thanks to quick loading cycles. Another major improvement is the high-performance drive, which guarantees particularly comfortable and precise maneuvering. Last but not least, the entire SCORPION series now also complies with the Stage V emission standard.

There are also two new members of the new generation of CLAAS corn headers, the ORBIS 600 and ORBIS 450 models. The new ORBIS 600, with a working width of 6.0 meters, is equipped with large-diameter discs, which make it ideal for medium to tall corn crops. The ORBIS 450, with a 4.5 meter working width, rounds out the lower end of the new generation of front attachments. Thanks to their crop flow concept, ORBIS corn headers stand for high efficiency and operational reliability whatever the harvest conditions.

Awards

At the Machine of the Year awards that took place on the opening day of AGRITECHNICA 2019, CLAAS was presented with the Machine of the Year 2020 award for its LEXION 8000/7000, the JAGUAR 900, and DataConnect, a joint initiative together with 365FarmNet, John Deere, and CNH Industrial. DataConnect also won a further two gold medals. At the international agricultural fair Polagra Premiery in Poland, DataConnect won an award in the Agricultural Machines, Equipment, Applications and Products category. Not only that, the innovation received the gold medal in the Solutions for Agricultural Management category at FIMA, the international exhibition for agricultural machines held in Spain.

The new LEXION generation received the iF GOLD AWARD 2020. The combine harvester impressed the jury in the Product category, particularly with its ergonomics and design. The jury was especially keen on the fully glazed cab, which provides an all-round view and the greater productivity enabled by the larger grain tank. The iF DESIGN AWARD is a world-famous design prize given to carefully selected industry products every year.

Purchasing

Fiscal year 2020 saw the low capacity utilization in the industry continue. This, coupled with the coronavirus crisis, caused steel prices to fall.

CLAAS was able to capitalize on the favorable development of the price of primary input factor steel, further declines in supplier capacity utilization, and a production program considered stable compared to the automotive industry to reduce costs.

Purchasing and logistics began safeguarding availability of supplies as early as the start of February following a COVID-19 risk report. Existing matrix organizations provided a solid basis for the rapid set-up of crisis management teams. This allowed restrictions to supply capacities to be largely minimized.

Due to COVID-19, the situation varied significantly depending on the logistic sector. Sufficient inbound and outbound capacities were available in road transport. However, capacity in the air freight segment was limited considerably by the

cancellation of many passenger flights. This resulted in temporary mark-ups on rates. In terms of sea freight, many ships were moved to roadsteads, leading to volatile market prices but no additional cost impact in total.

The division responsible for purchasing non-production material focused on major investments, IT projects, and optimizing purchasing processes. A variety of investments in buildings and systems, such as at the headquarters in Harsewinkel, Germany, were successfully completed. As part of the advancements in digitalization, CLAAS also initiated a number of extensive projects in collaboration with IT. New digital applications further enhanced the analytical capabilities of the CLAAS purchasing organization, unlocking additional potential and synergies as a result. CLAAS acted on opportunities arising in operative purchasing and adapted its terms and conditions with the aim of lowering costs. Price opportunities are expected to emerge in the near future; however, some suppliers are also set to experience financial difficulties too.

Research and Development
Purchasing
Employees

Employees

HR indicators ↗ 11

At €742.2 million, personnel expenses were up by around 1.6% year on year (prior year: €730.3 million). As of September 30, 2020, the CLAAS Group employed a total of 11,395 people (prior year: 11,448) worldwide, approximately 50.9% of which outside of Germany ↗ 12.

Training

As of September 30, 2020, the CLAAS Group employed 714 apprentices (prior year: 735), 430 (prior year: 414) of which in Germany. CLAAS trains young people in Germany in various technical and business professions, and as part of the German “dual study” system. The same applies to other countries in which CLAAS operates, such as France, Hungary, the United Kingdom, and India.

Personnel development

At CLAAS, strategic corporate objectives are directly connected with targeted investments in its employees. During the course of their careers, employees are offered qualification and further education opportunities. Vocational qualifications include a range of measures, such as workplace learning, seminars, workshops, or attending conferences.

Junior staff development

CLAAS cooperates closely with schools and institutions of higher education, and exercises a wide range of vocational training and orientation initiatives. Fairs, training days, and internships enable young people to establish early contact with the potential employer. School graduates may also apply to complete technical or commercial vocational training at any of our sites in Germany or enter into a bachelor's program at the Duale Hochschule Baden-Württemberg. Maintaining contact with apprentices, students participating in the “dual study” system, and interns even after their time at the Company is very important to CLAAS. The CLAAS Next Generation alumni program is used in a targeted manner to ensure the loyalty of talented young people in the long term. After finishing their studies, direct entry positions or the international trainee program offer a great opportunity for graduates to start their careers at CLAAS. The award-winning trainee program focuses on engineering, finance/controlling, sales, and software and electronics.

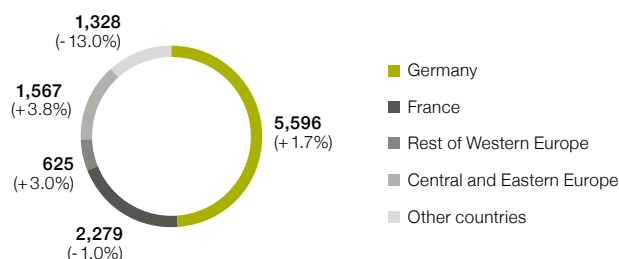
11_HR Indicators

		2020	2019
Employees as of the balance sheet date ¹	Number	11,395	11,448
Male employees	in %	86.7	86.5
Female employees	in %	13.3	13.5
Average age	in years	40.2	39.7
Length of service	in years	11.8	12.0
Fluctuation	in %	8.3	7.3
Personnel expenses	in € million	742.2	730.3
Vocational and further training costs	in € million	18.7	20.0

¹ Including apprentices.

12_Employees by Region

Employees/in % compared to prior year



Employer rankings and employer branding

CLAAS has successfully positioned itself as an attractive company among its target groups so as to continue securing talent in the future. CLAAS is regarded as being a popular employer among both German and international students, a fact that is confirmed every year by the top positions that CLAAS secures in the employer rankings. The market research company Universum, for example, named the CLAAS Group the Biggest Winner in its employer ranking for engineering students. CLAAS is also actively and systematically encouraging young women to enter technical professions.

Performance-based pay

As a responsible employer, we offer our employees competitive, performance-based pay that is aligned to the long-term requirements of CLAAS. Systematic job evaluation ensures

that our remuneration structures are both sound and commensurate. All domestic employees may become silent partners of CLAAS through CMG CLAAS Mitarbeiterbeteiligungs-Gesellschaft mbH. We aim to create a balance between business interests of the CLAAS Group and employees' professional, personal, and family needs. This includes offering employees the option to have flexible working hours, learn more about the need for a work-life balance, and to take advantage of home office regulations.

Women in leadership positions

CLAAS aims to promote the training and education of young women through offers such as a Female Day and a mentoring program for students of science, technology, engineering, and mathematics (STEM). These measures have already resulted in candidates applying to join our training and trainee programs.

In relation to Germany's law on the equal participation of women and men in executive positions, a new target was resolved in July 2017, which applies through June 30, 2022. The aim is to maintain or, if possible, increase the percentage of women in executive positions over this period. The target for the Supervisory Board stands at 8.3%. The target for the first management level stands at 7.7%, with the target for the second management level at 4.0%. In setting these targets, CLAAS took into account industry-specific circumstances and the current percentage of women on staff.

The above statement pursuant to Sec. 289f (4) of the German Commercial Code (HGB) is an integral part of the management report. The audit by the auditor is to be limited pursuant to Sec. 317 (2) Sentence 6 HGB to whether these disclosures have been made.

Risks and Opportunities

Internal control and risk management system

As a globally active corporate group, CLAAS is subject to various types of risk. Taking preventive measures to counter possible risks, as well as identifying, measuring, and adequately responding to these risks at an early stage, are key components of the CLAAS risk management system. At CLAAS, taking entrepreneurial action also means deliberately entering into calculable risk to allow the Company to take advantage of the related opportunities.

Within the CLAAS Group, a uniform, Group-wide risk management system is an integral part of corporate management and the controlling organization. This serves to take advantage of opportunities, identify any significant risk that could endanger the ability of the Company to continue as a going concern, and ensure appropriate risk handling. The risk management system and implemented risk controlling utilize a wide variety of information for ongoing identification, evaluation, and control of risks. The existing system, which is continually being developed further, complies with all statutory early warning requirements.

The Group's reporting system represents an essential element in the continuous monitoring of economic risks. In addition to the external data supplied for external reporting, detailed internal reports and evaluations are provided to decision makers on a monthly basis. Budgets are monitored for deviations, earnings projections for feasibility, and any new risks are identified, evaluated, and documented on an ongoing basis. Assessment takes place over a period of at least two years; however, some risks are identified and monitored that extend over a longer time frame. The management report usually covers a period of twelve months. Risks are assessed on the basis of the probability of occurrence of an estimated maximum risk exposure before the implementation of countermeasures.

Within existing organizational structures, the risk management system is accounted for and supported by the operating and administrative areas of responsibility. In addition to the regular information provided, an obligation to prepare ad hoc risk reports ensures prompt Group Executive Board action at all times. The Internal Auditing department of CLAAS is

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Risks and Opportunities

responsible for monitoring the adequacy of the risk management system and conformity with regulations.

The aim of the internal control and risk management system for the financial reporting process and the Group financial reporting process is to ensure the effectiveness of the accounting system and its adherence to generally accepted accounting principles and guarantee compliance with statutory norms, financial reporting standards, and intragroup accounting policies, which are binding for all companies included in the consolidated financial statements. The key information on this is available to the entire Group via the CLAAS intranet. CLAAS ensures that all information is up to date by conducting continuous analyses of any changes to determine their relevance and their impact on the financial statements. The Group Accounting department is primarily responsible for this task. CLAAS prepares its financial statements using a Group-wide reporting system that is also used for preparation of the budget, medium-term planning, and estimates during the fiscal year. The reporting system incorporates principles, processes, and controls to ensure that the financial statements comply with all requirements and are submitted on time. The following examples are representative of these principles, processes, and control mechanisms:

- Group-wide specifications for accounting, measurement, and account coding of key items that are updated and communicated to the responsible departments within the scope of training courses on an ongoing basis;
- Organizational measures in combination with access authorizations for accounting systems, separation of tasks, and rights of disposal;
- Dual control of financial reporting processes and in connection with the preparation of the financial statements;
- Internal audit procedures;
- Activities of external service providers.

The Internal Auditing department conducts regular risk-oriented reviews as well as reviews on a case-by-case basis of key business processes at companies in Germany and abroad. It determines whether legal requirements and internal instructions are being adhered to, and also whether the internal control system is effective and functional. As part of the reviews, the Internal Auditing department agrees on suitable

measures with the respective company management team, which are then implemented by the company. The Internal Auditing department also monitors the implementation. All audit results are reported as well. Internal audit activities, such as annual risk-oriented audit planning, documentation of audit activities and results, reporting, and follow-up measures, are set forth in rules for the Internal Auditing department and an audit manual. The tasks and activities are based on the rules of the Institute of Internal Auditors and of Deutsches Institut für Interne Revision, and they are supported by audit software. The most recent audit of the internal audit system in accordance with IDW PS 983 demonstrated full compliance with the quality assessment requirements.

More details on the main risks and opportunities are provided below.

Market risk

The risk landscape of CLAAS is affected by variations in harvest yields, decisions on agricultural policies, farmers' incomes, as well as intense competition in the industry. In view of demand trends for agricultural equipment, markets in Asia, especially China and India, as well as in Central and Eastern Europe, above all Russia, are of particular importance for the CLAAS Group. These markets have huge potential; however, CLAAS sales activities are hampered in some countries in these regions on account of the prevailing market conditions there. These include customs barriers, minimum requirements relating to the share of local manufacturing, payment and convertibility restrictions, or political and economic insecurity. At the same time, there are opportunities that go above and beyond current planning that can emerge from quicker growth in markets with a comparatively low level of mechanization. Risks and opportunities are managed centrally by monitoring and evaluating market-related indicators in conjunction with the specific country risks.

Markets and their early warning indicators are carefully observed on an ongoing basis in order to identify any fluctuations in demand or changing buying behavior in sales regions at an early stage. This ensures that product strategies are kept up to date and are adapted in response to changing customer requirements and reactions from competitors.

Research and development risk

Along with controlled risk-taking, acting entrepreneurially at CLAAS involves dealing in depth with all risks along the value-added chain. With innovation cycles becoming increasingly shorter, research and development play a pivotal role. The aim is to ensure that innovative and technically mature products are created and brought to market for the benefit of customers. Risks from possible mistakes in development, increased start-up costs for new products, or delays to product launches are counteracted through the systematic expansion and ongoing monitoring of research and development activities. CLAAS counteracts the risk that products may not be developed within the planned time frame, at targeted levels of quality, or at the specified costs by continuously and systematically monitoring the progress of all projects using a clearly defined process.

Purchasing risk

Risks resulting from supply bottlenecks have receded lately thanks to lower capacity utilization at suppliers. In addition, risks relating to the development of commodity prices – such as steel – have been reduced. By contrast, suppliers' liquidity-related risks have risen. Against this backdrop, CLAAS decided to significantly expand its long-established system of supplier financial monitoring from February 2020.

During the coronavirus crisis, availability risks forced us to shut down series production at numerous sites for a period of multiple weeks. By implementing extremely strict supplier monitoring, we were able to largely minimize the adverse effects of the crisis. Future availability risks resulting from regional or cross-regional lockdown measures to fight the pandemic are monitored closely. Purchasing, logistics, and production have worked closely together to collate key findings since the start of the pandemic and pinpoint measures and activities to boost supply security. Adverse effects cannot be ruled out, in spite of the suitable countermeasures taken by CLAAS.

Production risk

In CLAAS production, all equipment is serviced regularly, and any potential sources of risk are eliminated by renewing the equipment early in order to reduce the risk of production downtime. In addition, advantageous insurance contracts protect CLAAS from the effects of production outages.

Flexible working time models ensure that the required human resources can be adjusted to meet the degree of capacity utilization. To reduce quality risk, a central quality management department guarantees adherence to and fulfillment of predefined standards. The "Impact of and Response to the Coronavirus Crisis" section contains a full description of how CLAAS acted on the spread of the pandemic. Series production was temporarily shut down at numerous locations for the protection of employees and as a result of bottlenecks in supply. Based on these experiences, CLAAS considers itself to be well equipped to respond flexibly to further lockdown measures.

Personnel risk

CLAAS has a constant need for highly qualified specialists and management executives. At the moment, CLAAS does not see itself exposed to risks arising from a shortage of certain types of employees on the labor market and resulting delays in finding successors for critical positions. With its personnel strategy, CLAAS focuses above all on in-house junior staff advancement as well as systematic training and personnel development. Aside from dual study programs, the international trainee program ensures that highly qualified employees can be trained within the Company. In addition, CLAAS also offers measures to promote and maintain employee health. For a comprehensive description of personnel activities, please see the "Employees" section.

IT risk

Business processes at CLAAS are supported by powerful, state-of-the-art IT systems. The Group's uniform global IT strategy allows systems as well as security strategies and concepts to be effectively and continuously adapted to reflect current requirements and developments. Cybersecurity threats are actively and continuously monitored. Based on its insights from the monitoring activities, the Group prepares related organizational and technological measures for enhancing IT security, which are then permanently carried out.

In order to avoid disruption, CLAAS places particular importance on standardized hardware and software environments, the integrity and safety of data, and on user management. Reliable data backup systems are complemented by systematic and varied employee training.

Risks and Opportunities

Legal risk

CLAAS is exposed to risks relating to international and national tax, competition, patent, trade, and liability law. Decisions at the CLAAS Group are made after intensive legal review and consultation so as to avoid these risks. Selected risks are transferred to insurance companies by means of global master policies and national framework agreements on a uniform basis across the Group.

Financial risk

Due to its business activity, the CLAAS Group is exposed to risks and opportunities from exchange rate and interest rate volatility. On the procurement side, the CLAAS Group is exposed to commodity and supply security risk. Credit risks that could result from payment default or delayed payments are minimized through effective receivables management, close cooperation with banks, and credit insurance. Liquidity risk can result from a significant decline in operating business performance, restriction of the free movement of capital, or as a result of the risk categories mentioned above. These risks are identified for the entire CLAAS Group and measured, monitored, and managed centrally by Group Treasury. The hedging instruments primarily used are foreign exchange outright and options, as well as interest rate swaps. The risk management software in use enables independent valuations, performance measurement, and forward-looking scenario simulations of the utilized financial instruments. CLAAS is fully compliant with the risk management requirements that the European Market Infrastructure Regulation (EMIR) of the European Parliament and the European Council imposes on non-financial counterparties below the clearing threshold.

CLAAS measures liquidity development on an ongoing basis in the form of daily, weekly, and monthly reports with an increasing level of detail. Potential liquidity risks are countered by maintaining sufficient financing commitments and cash and cash equivalents, as well as through the ABS program and the international cash management strategy.

Risk management in relation to financial instruments, as well as the quantifying of concluded hedging instruments, is explained in Notes 34 and 35 to the consolidated financial statements.

Strategic refinancing risks are managed at CLAAS by a relatively long duration target for drawn borrowings.

Risks related to payment security have become increasingly important in recent years. CLAAS is responding to this constantly growing challenge through Group-wide information and training for employees in affected areas, the monitoring of payment transactions as part of the scope of the cash management process, clear responsibility structures and process definitions, and the systematic implementation of dual control at all process levels, especially payment execution, among other measures. Great importance is also placed on preventing money laundering. Binding Group-wide guidelines are supplemented by corresponding employee training and the provision of information and documentation.

In the area of dealer and sales financing, the CLAAS policy of following a traditional captive financing model only to a limited extent has paid off. The risk mix has remained sustainable thanks to the close integration of CLAAS Financial Services companies into the risk management and lending processes of a major European commercial bank, and the practice of concentrating primarily on business with retail customers.

Overall risk assessment

Following the continuous analysis of the information provided by risk management and risk controlling in fiscal year 2020, all quantified risks were deemed to be not material. For information on the existing financial risks, please see the notes to the financial statements. There is currently no way to tell how the coronavirus pandemic will progress and how long it will last. Renewed interruptions to supply chains and production processes may impact sales and financial performance. However, the handling of the pandemic at CLAAS in the first half of 2020 showed that the Company was able to largely avert any adverse effects. As a result, there are currently no identifiable risks for 2021 that could endanger the existence of the CLAAS Group or any of its major subsidiaries as going concerns, either individually or in conjunction with other risks, even if the pandemic were to continue.

Outlook

Economic frameworks

According to IMF estimates, global economic output measured by gross domestic product is likely to recover from the effects of the coronavirus pandemic in 2021 and see its rate of growth rise to 5.2%. Many key regions around the world will not yet see a return to 2019 pre-crisis levels by 2021. The euro zone economy is expected to grow by 5.2% in 2021, while growth of 3.1% is anticipated in the U.S. According to currently available information, both of these major economies will not recover to pre-crisis levels until 2022 at the earliest. China is expected to see growth of 8.2% (2020: 1.9%). At this point, it is worth noting that economic performance is strongly dependent on the growth rate recorded in the second quarter, as well as the extent and persistence of the negative shock (as of October 2020).

The U.S. Department of Agriculture (USDA) expects to see global grain production (including rice) rise to 2,733 million metric tons in the current crop year 2020/21. At 773 million metric tons, the USDA estimates that the wheat harvest will slightly exceed the prior year's record-breaking harvest (764 million metric tons), with inventories rising as a result of a merely slight increase in demand. At 1,158 million metric tons, the new corn harvest is expected to exceed last year's result (1,116 million metric tons). Inventories are to remain roughly on par with the prior year.

The dairy market continues to experience stable development. The Food and Agriculture Organization of the United Nations expects to see a slight increase in the global dairy market of 0.8% in 2020. Asia and North America are the primary source of growth in this market. By contrast, the European Union and the United Kingdom are set to report a slight decrease in dairy volume of -0.5% due to logistics issues and a lack of skilled workers.

Regional industry developments

Wet weather in fall 2019, followed by dry conditions in spring 2020, will lead to lower yields in this year's harvest of winter grain in some of Europe's key cultivation areas. The rainy conditions that came from April onwards were greatly beneficial to corn growth. The European Union's recently resolved

common agricultural policy is also giving our customers more planning security and legal certainty. Regional economic development programs (such as special write-downs in Germany) may also continue to boost demand for agricultural equipment. The outlook for European dairy farms has returned to normal following the severe sales crisis in recent months triggered by the COVID-19 pandemic. All in all, this should lead to a slight rise in demand for agricultural equipment in 2021.

Supported by the solid grain harvests in 2020, the agricultural equipment market in Eastern Europe is likely to develop positively in 2021. However, overall development should remain reliant on the underlying political and economic conditions as well. Tenders for agricultural modernization efforts will also continue to impact the market.

Income from agricultural produce for North American farmers will fall in 2020. Government support measures will more than compensate for this decline, resulting in overall income rising. Demand for professional agricultural equipment is expected to remain stable in 2021.

The most likely scenario when it comes to the development of grain production in Latin America in 2020 is a slight increase in production volumes. As a result, the agricultural equipment market in this region is set to stabilize at a high level in 2021. There are opportunities for growth in the Latin American agricultural industry, particularly in relation to soy exports, due to the trade conflict between the U.S. and China. However, political and economic uncertainty could lead to the situation deteriorating.

Asia's agricultural equipment market is on track for positive development in 2021. According to the latest estimates, rice, corn, and grain production is set to rise in crop year 2020/21. Besides the harvest prospects, important driving forces behind the development of the Asian market in individual countries are subsidization policies and the low degree of mechanization of Asian agriculture. Globally speaking, demand for agricultural equipment is at a low level, but will develop stronger momentum in the foreseeable future.

Outlook

Global trade conflicts and political instability are general risk factors. Further risks arise from the volatility of procurement prices for energy, steel, and other commodities, and the development of currencies significant to CLAAS, such as the U.S. dollar, the British pound, and the Russian ruble. The continuous revision of agricultural policy in the core markets of the European Union, the U.S., Russia, and China, will also shape the overall conditions. In addition, climate change plays an increasingly important role. The global increase of weather extremes such as droughts and heavy rains are impacting farm yields and must be taken into account. Presently, African swine fever, which is especially widespread in Asia and has now also reached Europe, poses an additional risk. The direct impact of COVID-19 on the agricultural industry has been moderate so far compared to other industries. This should remain the case in 2021, provided the situation does not deteriorate significantly any further.

General statement on the development of business and outlook

The development of business in 2020 was characterized by challenging economic conditions, particularly the widespread uncertainty caused by COVID-19, but also the varied and fluctuating development of the market in key agricultural equipment regions. There was strong variation in market assessments throughout the year, especially in Central and Western Europe. As the fiscal year draws to a close, market volumes are either stagnating or falling slightly overall. CLAAS was able to maintain its machine sales at a stable level in this challenging market environment. Sales figures were increased in Eastern Europe and North America. The launch of the new LEXION combine harvester generation played a key role in expanding our market position here. In spite of the volatile market and the extreme uncertainty caused by the COVID-19 pandemic, income still exceeded our expectations.

For fiscal year 2021, we expect key sales regions to experience stable to positive market environments overall. Some of our core markets will normalize from their current low level. In spite of the uncertainties described below, we still expect sales to match the prior-year figure in fiscal year 2021.

In view of the coronavirus pandemic, smoldering international trade conflicts, and increasing political tensions with the risk of

new bilateral sanctions in trade, finance, and other aspects of the economy, adverse effects on sales and income at the CLAAS Group cannot be ruled out. Further risks may arise from weakening industry development and changing political frameworks for farmers in our core markets.

We will continue to systematically pursue our strategy and strengthen the position of our products in the growth markets in Eastern Europe, North America, and Asia. The capital expenditures in the current year will remain at the high levels seen in 2020. If market conditions change, the volume could be flexibly adapted. The development of innovative products and intelligent technologies will continue apace in the current fiscal year. However, it will take some time for the expenses associated with such development work to be recouped by the corresponding revenues. We will keep up our efforts to enhance efficiency and sustainable cost reductions in the current year. We anticipate income before taxes to match the prior-year figure in the current fiscal year 2021.