

The engine company.



DEUTZ AG · 51057 Köln / Cologne · Deutschland / Germany

DEUTZ AG

Ottostraße 1
51149 Köln (Porz-Eil)
Telefon: +49 (0) 221 822-0
Telefax: +49 (0) 221 822-15-3525
E-Mail: info@deutz.com

- Convenience Translation -

Report of the Board of Management pursuant to section 221 (4) sentence 2 and section 186 (4) sentence 2 AktG on agenda item 12

Item 12 of the agenda for the Annual General Meeting contains the motion to authorise the Board of Management, subject to the consent of the Supervisory Board, to issue on or before 25 April 2023 on one or more occasions registered and/or bearer profit-sharing rights – strictly without conversion rights or option rights – in respect of shares in the Company and with or without a limited maturity. The maturity of these profit-sharing rights may be up to 30 years. The profit-sharing rights may be denominated in euros or in any other legal tender of an OECD member state. If profit-sharing rights are issued in another currency, the relevant corresponding value in euros is the value calculated at the ECB reference rate on the date the resolution on the issue of the profit-sharing rights is adopted. The total principal amount of the profit-sharing rights may not exceed €100,000,000 or the corresponding value in another currency of an OECD state.

The proposed authorisation is intended to extend the Company's range of operational funding options during its period of validity, and to enable the Board of Management, subject to the consent of the Supervisory Board, to seize flexible funding opportunities at short notice in the interest of the Company, especially when capital market conditions are favourable, while precluding any changes in the total issued capital resulting from options with attached conversion rights or obligations. It is intended that profit-sharing rights may be issued in exchange for cash or non-cash contributions in order to provide further flexibility and enable their use as a currency in acquisitions of equity investments or rights.

It is furthermore planned to authorise the Board of Management, subject to the consent of the Supervisory Board, to determine the finer details of the issue and the terms and conditions of the profit-sharing rights, in particular the coupon, issue price, denomination, maturity, amount of the annual distribution, termination and the proportion of profit distribution and liquidation proceeds, in order to ensure that issues are arranged in conformity with prevailing market conditions and market requirements at the time.

Existing shareholders generally have pre-emption rights in respect of profit-sharing rights, which may also be granted in the form of an indirect pre-emption right. This allows them to invest their capital in the Company and at the same time to maintain their pro rata financial interest in the Company. However, it is planned to authorise the Board of Management to disapply these pre-emption rights in the following cases, subject to the consent of the Supervisory Board and in compliance with the relevant legal provisions:

- First, the plan provides for the disapplication of pre-emption rights for fractional amounts. This is intended to facilitate the processing of an issue in which existing shareholders generally have a pre-emption right. Fractional amounts may arise as a result of the issue volume and the need for a manageable ratio in the pre-emption rights calculation. The value of these fractional amounts is normally minimal as far as the individual shareholder is concerned, whereas the effort required to carry out an issue without a disapplication of rights of this kind is significantly greater than otherwise would be the case. Furthermore, any dilutive effect owing to the restriction of fractional amounts is negligible. The profit-sharing rights arising from the fractional amounts and made available as a consequence of the disapplication of the pre-emption rights of existing shareholders are sold to generate the best possible benefit for the Company. The disapplication of pre-emption rights is therefore practical and facilitates the implementation of an issue.
- The Board of Management will also be authorised, subject to the consent of the Supervisory Board, to disapply the pre-emption rights of existing shareholders overall if the profit-sharing rights have terms and conditions similar to a bond, i.e. they do not confer any rights of membership in the Company, they grant no share of liquidation proceeds and the amount of the coupon is not calculated on the basis of net income, accumulated income or the dividend; in addition, the coupon and the issue price of the profit-sharing rights must reflect the prevailing market terms for comparable instruments at the

time of issue. If the specified preconditions are satisfied, shareholders will not suffer any disadvantage from the disapplication of pre-emption rights because the profit-sharing rights do not confer any rights of membership in the Company, nor do they grant the holders any share in the proceeds of liquidation or in the profits of the Company. Although the coupon can be linked to the availability of net income, accumulated income or a dividend, the Board of Management would not be permitted to include any arrangement in which higher net income, higher accumulated income or a higher dividend would lead to a higher coupon. The issue of profit-sharing rights does not therefore change or dilute shareholders' voting rights, investment in the Company or share of profits. In addition, in this case, the pre-emption rights have little value because of the arm's-length terms and conditions of issue that are mandatory for this type of disapplication of pre-emption rights.

- The pre-emption rights of existing shareholders are also to be disappplied in cases where profit-sharing rights are issued in return for non-cash contributions for the purposes of acquiring entities, parts of entities or equity investments in entities, for carrying out business combinations or for acquiring other assets for which contributions are required, in particular receivables.

In appropriate individual cases, this allows the Board of Management to fund the acquisition of entities, parts of entities, equity investments in entities, or other assets, in particular receivables, by issuing profit-sharing rights while at the same time protecting liquidity. The Company therefore has a tool to make the most of any acquisition opportunities using flexible funding options. The ability to respond quickly and effectively to appropriate, advantageous offers, or to opportunities presented by the market, also helps the Company maintain and enhance its competitiveness. In the aforementioned instances, profit-sharing rights often need to be issued as soon as possible and, for reasons of cost and practicability, the issue of such profit-sharing rights cannot therefore be approved directly by a general meeting that only takes place once a year.

The Company is not disadvantaged in any way by this because the issue of profit-sharing rights for a non-cash contribution requires that the value of the non-cash consideration be appropriate in relation to the value of the profit-sharing rights. In establishing the valuation ratio, the Board of Management will ensure that the interests of the Company and its shareholders are appropriately protected and that a suitable issue price for the new shares is achieved.

The Board of Management is authorised, subject to the consent of the Supervisory Board, to decide on the finer details as regards the issue and terms and conditions of the profit-sharing rights. The Board of Management will report to the next Annual General Meeting on any circumstances in which any of the proposed authorisations are exercised. Köln, den 6. März 2018

The Board of Management of DEUTZ AG

Dr. Frank Hiller

Dr. Margarete Haase

Michael Wellenzohn

Dr. Andreas Strecker