

CORPORATE GOVERNANCE DECLARATION AND CORPORATE GOVERNANCE REPORT

For DEUTZ, a responsible approach to management that meets the standards of good corporate governance forms the basis for enhancing shareholder value over the long term. This is one of the main reasons why we attach great importance to the implementation of the German Corporate Governance Code (DCGK) and ensure quality and transparency in all key decisions and processes in our Company.

CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289F HGB

Declaration of conformity with some exceptions

In 2017, the Board of Management and the Supervisory Board once again carefully considered to what extent it was proper and consistent with the Company's objectives for DEUTZ to apply all the guidelines and recommendations of the DCGK. As a result, DEUTZ AG complies with the recommendations of the Code, as amended on 7 February 2017, with the following exceptions:

1. The D&O insurance taken out by DEUTZ AG for the members of the Supervisory Board does not provide for any excess, contrary to article 3.8 (2) and (3) DCGK. In the case of Supervisory Board members, an excess of this type is, as before, not considered an appropriate means of control.
2. There is no age limit at DEUTZ AG for members of either the Board of Management or Supervisory Board, contrary to articles 5.1.2 (2) sentence 3 and 5.4.1 (2) sentence 1 DCGK.
3. Furthermore, there is no general limit on length of membership of the Supervisory Board, contrary to article 5.4.1 (2) sentence 1 DCGK. These exceptions enable DEUTZ AG to retain the option of benefiting from the experience brought to the Company by older members of the Board of Management and Supervisory Board and by long-standing members of the Supervisory Board.
4. DEUTZ AG does not yet have a skills profile for the Supervisory Board, contrary to article 5.4.1 (2) sentence 1 DCGK. The DEUTZ AG Supervisory Board is currently drawing up a skills profile ahead of the Supervisory Board election to be held in 2018.

The current declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG), which the Board of Management and Supervisory Board submitted on 21 September 2017, can be accessed in the 'Investor Relations/Corporate Governance' section of the Company's website at www.deutz.com. Declarations of conformity from previous years can also be viewed and downloaded there.

Composition of the Board of Management and Supervisory Board; composition and operating procedures of Supervisory Board committees

At the time this annual report was published, the Company's Board of Management comprised four members: Dr Frank Hiller (Chairman, technical and head-office functions), Dr Margarete Haase (finance, human resources, purchasing and information services until 31 March 2018; no areas of responsibilities in the subsequent period up to 30 April 2018), Mr Michael Wellenzohn (sales, service and marketing) and Dr Andreas Strecker (no areas of responsibility initially; responsible for finance, human resources, purchasing and information services from 1 April 2018).

At the Supervisory Board meeting on 8 December 2017, following preparatory work by the Human Resources Committee, the Supervisory Board appointed Dr Andreas Strecker as a member of the Board of Management and as the Company's Human Resources Director for the period from 1 March 2018 to 28 February 2021. He succeeds Dr Margarete Haase, whose term of appointment continues until 30 April 2018. The Supervisory Board would like to thank Dr Haase for her very successful work.

By means of a resolution dated 31 January 2018, following preparatory work by the Human Resources Committee, the Supervisory Board extended Mr Wellenzohn's appointment by five years for the period from 1 January 2019 to 31 December 2023.

In accordance with the provisions of the German Codetermination Act (MitbestG), the Supervisory Board of DEUTZ AG comprises twelve members, six members being the representatives of the shareholders and six members being the representatives of the employees.

The changes in the composition of the Supervisory Board in 2017 are as follows:

At the request of the Board of Management, the local court in Cologne on 19 May 2017 appointed Mr Gerhard Gehweiler as an employee representative on the Supervisory Board of DEUTZ AG with effect from 1 June 2017 for the remaining term of the current Supervisory Board membership cycle. The appointment became necessary when Dr Herbert Vossel stepped down from his post with effect from 31 May 2017.

The Supervisory Board has created four committees to enable it to perform its duties effectively. They are the Human Resources Committee, the Audit Committee, the Arbitration Committee and the Nominations Committee. The Human Resources Committee consists of two representatives of the shareholders and one employee representative; the Audit and Arbitration Committees both consist of two shareholder representatives and two employee representatives; and the Nominations Committee has three members, all of whom represent the shareholders. The Audit Committee follows its own rules of procedure, which can be viewed on the DEUTZ AG website, while the other committees work according to the rules of procedure that apply to the (full) Supervisory Board.

The Human Resources Committee makes preparations for all Supervisory Board decisions concerning the appointment of members of the Board of Management and their contracts of employment, including the remuneration specified therein, and all issues arising in this connection. The committee met on six occasions in 2017. Among the main matters addressed were the preparation of the resolutions to be adopted by the full Supervisory Board in relation to Dr Strecker succeeding Dr Haase on the Board of Management, to the achievement of the Board of Management's targets for 2016 and to the setting of Board of Management targets, including medium-term targets, for 2017.

The work of the Audit Committee in the year under review focused on monitoring the financial accounting process, on assessing the annual and consolidated financial statements and the combined management report of DEUTZ AG and the Group for 2016 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2017 and their review by the auditors and the interim management statements for the periods ended 31 March and 30 September 2017, and on discussing the audit engagement for the year ended 31 December 2017, including a review of auditor quality and independence. Other matters addressed by the committee included risk management, compliance, the internal control system, internal audit, strategic planning, key performance indicators as well as the non-financial report that had to be produced for the 2017 financial year for the first time and other obligations resulting from implementation of the CSR directive (2014/95/EU). In 2017, the Audit Committee held four meetings, three of which were also attended by the external auditors.

The Arbitration Committee set up pursuant to section 27 (3) of the German Codetermination Act (MitbestG) is responsible for the activities described in section 31 (3) of the Act. It did not need to be convened during the year under review.

The Nominations Committee is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The Nominations Committee met once in 2017, during which it focused on preparations for the Supervisory Board election to be held in 2018.

The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.

The composition of the Supervisory Board committees changed as follows in 2017: at its meeting on 9 March 2017, the Supervisory Board elected Ms Füssel to succeed Mr Paust as a member of the Arbitration Committee.

Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 140 and 141.

Targets and timeframes in accordance with sections 76 (4), 111 (5) AktG

On 21 August 2017, the Board of Management of DEUTZ AG set certain targets and timeframes in accordance with section 76 (4) AktG. The proportion of women employed by DEUTZ AG at the top level of senior management below the Board of Management is to be increased to 13 per cent by 30 June 2022. The proportion of women at the second level of senior management below the Board of Management is to be increased to 7 per cent over the same period. The top level of senior management below the Board of Management encompasses all managers in Germany who report directly to a member of the Board of Management. The second level of senior management below the Board of Management comprises all managers in Germany who report directly to a manager in the top level of senior management.

To ensure that women are taken into consideration for vacant managerial positions, DEUTZ AG has adopted a staff development programme. When positions in the top and second levels of senior management below the Board of Management become available, the Board of Management and the HR department are striving to ensure that at least one woman is always short-listed for the post (article 4.1.5 DCGK). This means that external recruitment must focus on female managers.

At the time of publication, the proportion of women in the top level of senior management below the Board of Management is 5.9 per cent and in the second level of senior management below the Board of Management 8.2 per cent. DEUTZ AG thus attained the aforementioned target for the second level of senior management. It did not achieve the target for the first level of senior management because only very few management positions have been newly filled since the Board of Management set the targets on 21 August 2017. Furthermore, it remains the case that women continue to be under-represented in the scientific and technical degree courses that are of particular relevance to DEUTZ AG.

At its meeting on 21 September 2017, the Supervisory Board of DEUTZ AG set the following target in accordance with section 111 (5) AktG: on 30 June 2022, the members of the Board

of Management of DEUTZ AG should still include at least one woman.

Disclosures regarding compliance with the statutory quotas for women and men on the Supervisory Board

In accordance with the Law for the equal participation of women and men in managerial positions in the private and public sectors (law on the quota for women), the Supervisory Board of DEUTZ AG must have at least four female members and four male members after the elections scheduled for 2018, if not before.

At the time this law came into effect on 1 January 2016, the Supervisory Board of DEUTZ AG comprised eleven men and one woman. Since 1 June 2016, following the appointment of Ms Füssel to succeed Mr Paust, it has had ten male members and two female members.

As both women are employee representatives, and the Supervisory Board decided that the minimum quota has to be met separately for shareholder and employee representatives, the employee representatives are already in compliance with the statutory quota.

This is not currently the case for the shareholder representatives, as it has not been necessary to appoint new shareholder representatives to the Supervisory Board since the law on the quota for women came into effect.

Description of the diversity concept for the composition of the Board of Management and Supervisory Board

DEUTZ AG currently does not have a diversity concept in place for the composition of its Board of Management and Supervisory Board beyond those targets outlined in this declaration and in the corporate governance report. Discussions are taking place about whether a detailed diversity concept should be drawn up.

Disclosures relevant to corporate management practices: compliance management system, environmental and quality management, energy management

DEUTZ AG has a compliance management system that is firmly anchored in the Company's organisational structure. The system is continually enhanced in order to meet changing requirements. Dr Hiller is the member of the Board of Management responsible for compliance.

The overriding objective of the compliance management system is to use preventive measures to ensure that the business practices of DEUTZ AG and the internal regulations and policies are known across the Group. This is primarily achieved through a structured policy management system in which existing policies are reviewed on an ongoing basis to see if they need updating and new policies are published. The policy management system is based on the code of conduct, which provides a framework for ensuring that behaviour towards business partners and

employees is fair and in compliance with the law. Employees can access the code of conduct via the internal communications platform. Third parties can view the code of conduct on the DEUTZ AG website. The guidelines set out in the code of conduct are formalised in specific policies, including a zero-tolerance policy, a policy on gifts and entertainment, a policy on engaging external sales service providers, an anti-money laundering policy and an insider trading policy, that help to ensure that employees are aware of the relevant laws and policies and are able to apply them correctly.

The Board of Management supports and promotes ethical conduct. It is unreservedly committed to corporate compliance and declines to be involved in any transactions that are inconsistent with these values. The Board of Management does not tolerate any form of corruption and is fully committed to compliance with competition law and to incorporating the notion of sustainability into the Company's activities.

Training is intended to ensure that employees are aware of the relevant laws and corporate policies, and that they comply with them at all times in their day-to-day work. Salaried staff in the head-office sales, purchasing, research and development and administration units, as well as in the subsidiaries, generally receive annual training sessions that are specifically tailored to their areas of activity. In the production plants, compliance training takes place in conjunction with the regular safety training.

A Compliance Officer appointed by the Board of Management coordinates compliance activities at DEUTZ AG. The individual business units and subsidiaries have their own compliance coordinators, who are responsible for compliance in their organisations and submit regular structured reports in writing to the Compliance Officer, who in turn reports to the Board of Management and Audit Committee. The basic principles of the compliance organisation are described in rules of procedure. The duties of the relevant employees are set out in job descriptions.

Employees can supply information or direct questions to line managers, compliance coordinators, the Compliance Officer or the managers responsible for the legal affairs or internal audit units. Furthermore, since the beginning of 2017, the DEUTZ AG website has featured a whistleblowing system that can also be accessed by non-employees. Any information supplied is rigorously followed up. Any necessary investigations are carried out by internal audit, with external support if required.

Regular meetings are held to develop, discuss and coordinate compliance initiatives. These activities focus on preventing corruption, tackling money laundering and complying with export regulations (including export controls). They also ensure safety in the workplace, IT & data security, corporate security and product safety. A further aim is to prevent breaches of environmental, antitrust and insider trading laws.

As and when needed, the Board of Management and the Compliance Officer take legal advice on establishing and continuously improving the compliance management system. In 2017, the compliance system was reviewed with assistance from an external consultancy in order to gather information for the system's future refinement. The internal audit department reviews the activities, and the Audit Committee monitors them on behalf of the Supervisory Board.

Compliance activities during the year under review again centred on the continuation and stepping up of regular staff training (including for staff at affiliated companies abroad), focusing on the code of conduct, money laundering, gifts, commission, export controls, competition law and contract law. A further focus was the delivery of training courses via a web-based e-learning programme, which featured modules on antitrust law, data security and prevention of corruption.

In 2017, almost 1,100 employees took part in classroom-based training and around 1,800 employees successfully completed all or individual modules of the e-learning programme.

As part of the ongoing review of our organisational policies, we revised the policy on inhouse continuing professional development and the policy on conformity rules for engines destined for the EU or US market.

Another essential element of corporate management at DEUTZ AG is rigorous environmental, quality and energy management. In the year under review, DEUTZ AG continued to satisfy the quality management requirements in accordance with ISO 9001, the environmental management requirements in accordance with ISO 14001 and the energy management requirements in accordance with ISO 50001. The relevant certificates from TÜV Rheinland can be found on the DEUTZ website.

All standards set by the Deutsches Institut für Normung e.V., Berlin (DIN) can be inspected free of charge at DIN standards