

## 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 289A HGB

#### Declaration of conformity with some exceptions

In 2016, 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 5 May 2015, 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. 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.

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 22 September 2016, can be accessed in the Investors / Corporate Governance section of the Company's website at [www.deutz.com](http://www.deutz.com). Declarations of conformity from previous years can also be viewed and downloaded there.

#### Description of the operating procedures of the Board of Management and Supervisory Board

At DEUTZ, responsibility for the executive function lies with the Board of Management; the Supervisory Board monitors and advises the Board of Management in its activities.

With the long-term development of the Company in mind, the Board of Management and Supervisory Board maintain an

open, ongoing dialogue on all strategic decisions in the Company – a process that continued in the year under review. The primary aim of the close cooperation between the two bodies is to enhance the value of the Company over the long term for the benefit of shareholders, employees and business partners. Accordingly, the Board of Management provides the Supervisory Board with regular, comprehensive and timely reports on all relevant issues relating to planning, business performance, risk position and risk management.

The Supervisory Board's work is based on rules of procedure, which can be downloaded from the DEUTZ AG website at [www.deutz.com](http://www.deutz.com).

Five meetings of the Supervisory Board took place in 2016.

No former members of the DEUTZ AG Board of Management are now members of the Supervisory Board.

The Supervisory Board is elected for a period that runs until the Annual General Meeting in 2018.

The principles by which the Board of Management operates are summarised in rules of procedure issued by the Supervisory Board, which can also be downloaded from the DEUTZ AG website.

Board of Management meetings generally take place every two weeks.

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

The Company's Board of Management consists of three people: Dr Frank Hiller (chairman, responsible for technical and head-office functions), Dr Margarete Haase (responsible for finance, HR and investor and public relations) and Mr Michael Wellenzohn (responsible for sales, service and marketing).

At its meeting on 22 September 2016 the Supervisory Board, following preparation by the Human Resources Committee, approved the intention of Dr Helmut Leube to step down as a member and the Chairman of the Board of Management with effect from 31 December 2016; at the same time it appointed Dr Hiller as a member and the Chairman of the Board of the

Management with effect from 1 January 2017 and for a term of five years up to 31 December 2021. The appointments of Dr Haase and Mr Wellenzohn continue until 30 April and 31 December 2018 respectively.

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 2016 are described below.

At the request of the Board of Management, and in accordance with the proposal by the General Works Council, the local court in Cologne on 21 April 2016 appointed Ms Gisela Füssel as an employee representative on the Supervisory Board of DEUTZ AG with effect from 1 June 2016 for the remaining term of the current Supervisory Board membership cycle. The appointment became necessary when Mr Dietmar Paust stepped down from his post with effect from 31 May 2016.

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 nine occasions in 2016. Among the main matters addressed were the preparation of the resolutions to be adopted by the full Supervisory Board in relation to Dr Hiller succeeding Dr Leube as Chairman of the Board of Management, to the achievement of the Board of Management's targets for 2015 and to the setting of Board of Management targets, including medium-term targets, for 2016.

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 2015 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months

to 30 June 2016 and their review by the auditors, the interim management statements for the periods ended 31 March and 30 September 2016, and the discussion of the audit engagement for the year ended 31 December 2016, 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 and the new statutory regulations on auditing, particularly in connection with the stricter rules that will be coming into force concerning the provision of non-audit services by auditors. In 2016, 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. It also did not convene last year.

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 membership of the Supervisory Board committees did not change in 2016. At its meeting on 9 March 2017 the Supervisory Board elected Ms Füssel to succeed Mr Paust as a member of the Arbitration Committee.

Full 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 120 to 121.

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

On 12 August 2015, 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 2017. 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