

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. 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 introduction of a web-based e-learning programme in July 2016, which featured modules on antitrust law, data security and prevention of corruption.

In 2016 almost 800 employees took part in classroom-based training and around 1,500 employees successfully completed all or individual modules of the e-learning programme.

As part of the ongoing review of our organisational policies, we expanded the policy on business trips, revised the insider trading policy and issued new policies on EPA compliance and on the pre-approval of non-audit services provided by our external auditors.

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 Det Norske Veritas/Germanischer Lloyd 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 repositories.

## CORPORATE GOVERNANCE REPORT

### **Basic principles and objectives of the composition of the Supervisory Board; particularly, conflicts of interest/independence of Supervisory Board members and the consideration of women**

The Supervisory Board re-drafted the specific objectives regarding its composition in accordance with articles 5.4.1 (1) and (2), 5.4.2 DCGK at its meeting held on 24 September 2015. The new version is as follows:

“The Supervisory Board must be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks. In particular, the following applies:

#### a) Internationality

To reflect the international nature of the Company’s activities, at least two Supervisory Board members shall have several years’ experience of international business – preferably acquired abroad.

#### b) Potential conflicts of interest

The composition of the Supervisory Board shall also take account of potential conflicts of interest of its members.

All members of the Supervisory Board are obliged to disclose any conflicts of interest, especially those arising from an advisory function or directorship at customers, suppliers, lenders or other third parties.

Supervisory Board members shall not be directors of major competitors of DEUTZ AG.

#### c) Number of independent Supervisory Board members

The Supervisory Board is limiting its target concerning this aspect to the shareholder representatives. It considers this group to have an adequate number of independent members if the number of independent members equals the number of members who are not independent, i.e. at least three.

#### d) Standard age limit

At DEUTZ AG, there is no age limit for Supervisory Board members or for Board of Management members. Nor is there a standard limit on length of membership of the Supervisory Board. This is because DEUTZ AG wants 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/or long-serving members of the Supervisory Board.

#### e) Diversity/proportion of women on the Supervisory Board

The Supervisory Board shall primarily take the appropriate skills of its members, and also its diversity, into consideration when deciding on its composition. The Supervisory Board welcomes the fact that the law for the equal participation of women and men in managerial positions in the private and public sectors has now come into force and that, as a consequence, the Supervisory Board will have at least four women members after the elections marking the start of the next membership cycle in 2018, if not before."

Except for the target relating to female representation, the Supervisory Board has continuously met these objectives since 2012. It has even exceeded them in cases such as the international experience available on the Supervisory Board and the number of independent members. The current members of the Supervisory Board are all considered independent within the meaning of article 5.4.2 sentence 2 DCGK. No conflicts of interest between members of the Supervisory Board and DEUTZ AG arose in the year under review.

#### Consideration of women when making appointments to the Board of Management

The Board of Management of DEUTZ AG currently has three members, one of whom is female, equating to a ratio of 33.3 per cent.

#### Responsible risk management

A forward-looking, prudent and responsible approach to corporate risks is a core aspect of good corporate governance and forms the basis for the risk management system at DEUTZ. The Board of Management regularly notifies the Supervisory Board of any existing or anticipated risks. Details of the DEUTZ Group's risk management systems can be found in the risk report on pages 57 to 61.

#### Comprehensive transparency and active investor relations

The transparent presentation of developments and decisions in a company forms the core of any model system of corporate governance. Continuous, open dialogue with all stakeholders ensures trust in a company and its value creation process. DEUTZ therefore attaches the greatest importance to ensuring that all relevant target groups are given the same information at the same time and in a timely manner.

We achieve this objective by using various media. DEUTZ AG reports on the performance and development of its business and on significant changes and events four times a year in its interim management statements, half-year report and annual report. The interim management statements and half-year reports

are published within 45 days of the end of a reporting period; the annual report is published within 90 days of the end of the financial year. The Company maintains constant contact with investors and analysts through its regular investor relations activities. In addition to the annual analysts' meeting held when the Company's consolidated financial statements are published, conference calls for analysts and institutional investors also take place when the interim management statements and half-year report are published. The Annual General Meeting is usually held in the first five months of the year; shareholders who do not attend the AGM in person can instruct proxies to vote on their behalf.

Our website also offers comprehensive information on the Company: DEUTZ AG annual reports, half-year reports and interim management statements, press releases and ad hoc announcements, analyst recommendations and investor relations presentations as well as key dates in the financial calendar can all be found at [www.deutz.com](http://www.deutz.com). The Company's Statutes are also available online. Almost all the pages on our website are provided in both German and English to ensure that important company news and information is as accessible as possible, including to an international audience. Apart from the regularly published information, DEUTZ AG also provides details of circumstances that are not in the public domain but that could have a significant impact on DEUTZ's share price were they to become known. The Company's reporting policy therefore complies both with legal requirements and DCGK guidelines.

#### Accounting and auditing

DEUTZ AG's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements are prepared by the Board of Management and reviewed by the auditors.

The auditors have agreed to inform the chairman of the Supervisory Board or the chairman of the Audit Committee without delay if grounds for disqualification or release of the auditors, or any misrepresentations in the declaration of conformity, come to light during the audit. The auditors inform the chairman of the Supervisory Board without delay of any issues or incidents relevant to the role of the Supervisory Board that arise during the audit of financial statements.

#### Conflicts of interest and consultancy agreements

Information about conflicts of interests in relation to Supervisory Board members can be found under 'Basic principles and objectives of the composition of the Supervisory Board' at the start of this corporate governance report.

The Company does not have any consultancy agreements with members of the Supervisory Board.

The members of the Board of Management must disclose any conflicts of interest to the Supervisory Board. The Supervisory Board then reports these cases, along with any conflicts of interest relating to its own members, to the Annual General Meeting.

### **Remuneration report**

The remuneration of the Board of Management complies with the German Act on the Appropriateness of Management Board Remuneration (VorstAG) and DCGK recommendations.

A description of the main features of the remuneration systems for the Board of Management and Supervisory Board, along with details of the remuneration for each member, can be found in the remuneration report on pages 53 to 56 of the combined management report.

### **Dealings subject to reporting requirements**

Section 15a of the German Securities Trading Act (WpHG) and (since mid-2016) article 19 of the Market Abuse Regulation (MAR) state that persons with executive functions or persons with whom they are closely associated must notify both the company and the German Federal Financial Supervisory Authority (BaFin) of their own dealings in shares of the company or in financial instruments of the company based on such shares.

In 2016, Mr Wellenzohn disclosed the purchase of DEUTZ shares in accordance with section 15a WpHG. No other persons required to make such a disclosure did so before the adoption of the 2016 annual financial statements. Transactions disclosed in previous years are published on the DEUTZ AG website.

There were no shareholdings of Board of Management or Supervisory Board members that were subject to reporting requirements pursuant to article 6.2 DCGK in the year under review or before the 2016 annual financial statements were adopted.