

SEPARATE COMBINED NON-FINANCIAL REPORT

64 About this non-financial report

64 Business model

64 Materiality Assessment

65 Environmental matters

67 Treatment of employees

70 Social responsibility

70 Corporate social responsibility

71 Compliance

72 Overarching topics

76 Independent Assurance Report

ABOUT THIS NON-FINANCIAL REPORT

In accordance with section 315b et seq. and section 289b et seq. of the German Commercial Code (HGB), DEUTZ has been publishing a separate combined non-financial report ('non-financial report') for each financial year since 2017. The content of this report covers both the DEUTZ Group and the parent company DEUTZ AG and is issued as a separate report. Unless otherwise indicated, all disclosures pertain to the Group ('DEUTZ') as a whole. Disclosures that relate only to DEUTZ AG are labelled accordingly. The non-financial report summarises the key topics pertaining to the following areas of focus: environmental matters, treatment of employees, social responsibility and measures to combat corruption and bribery. Reference is made at the relevant points to further information contained in other parts of this annual report. References to disclosures outside the scope of the consolidated financial statements and the annual financial statements of DEUTZ AG and the combined management report of DEUTZ AG and the Group for 2018 do not form part of the non-financial report.

This non-financial report has been produced with reference to the framework provided by the German Sustainability Code (DNK). It covers criteria 1, 3 and 6 of the DNK.

The non-financial report has been voluntarily submitted for a review with limited assurance pursuant to ISAE 3000 (Revised).

Using the net method, we identified no material risks in relation to our own business activity, to our business relationships, products and services or to aspects relating to the 13 key topics pursuant to sections 289c (3) nos. 3 and 4 HGB, that are very likely to have a serious impact on the reportable areas of focus now or in the future. All other information on opportunities and risks are presented in the opportunity and risk report on page 55 et seq. of the combined management report.

BUSINESS MODEL

DEUTZ is one of the world's leading manufacturers of innovative drive systems. It offers a broad range of engines with capacities ranging from 19 kW to 620 kW that are used in construction equipment, agricultural machinery, material handling equipment, stationary equipment, commercial vehicles, rail vehicles and other applications. For further information on the business model, see page 28 et seq. in the combined management report of this annual report.

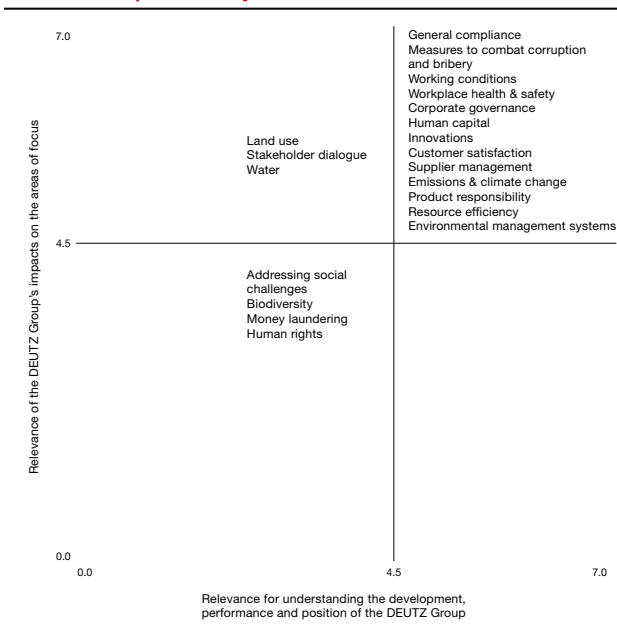
MATERIALITY ASSESSMENT

In 2017, in preparation for the non-financial report, we set up a project to identify the key topics in accordance with the HGB criteria.

We reviewed the materiality assessment for the 2018 reporting year and, having found no changes, adopted it as is.

The materiality matrix encompasses the dimensions 'Impacts of DEUTZ's activities on the areas of focus' and 'Relevance for understanding the development, performance and position of the DEUTZ Group'.

DEUTZ Group: Materiality matrix



The following key topics were identified for each area of focus:

- Environmental matters: environmental management systems, resource efficiency, air quality and climate
- Treatment of employees: working conditions, health and safety, employee development and training
- Social responsibility: product responsibility
- Compliance: general compliance, measures to combat corruption and bribery, corporate governance
- Overarching topics: customer satisfaction, innovation, supplier management

In the following section, we report on the 13 key topics on the basis of the criteria specified under HGB.

The materiality assessment revealed that the subject of human rights has little relevance in terms of impacts on the areas of focus and in terms of understanding the development, performance and position of our Company because our compliance with applicable domestic and international laws and collectively agreed working conditions means that human rights infringements can essentially be ruled out. Furthermore, it emerged that there were no material risks with regard to our business activities, to our business relationships, products and services, or to aspects relating to the 13 key topics that are very likely to have a serious impact on the reportable areas of focus now or in the future.

According to the materiality assessment, the subject of corporate social responsibility (CSR) has low relevance. DEUTZ reports on its CSR activities on a voluntary basis.

In 2018, DEUTZ decided to formulate an overarching CSR strategy and to review the materiality assessment in this context. The outcome will be presented in the non-financial report for 2019.

ENVIRONMENTAL MATTERS

Key environmental concerns for DEUTZ are environmental management systems, resource efficiency, air quality and climate. These are explained below.

DEUTZ AG's integrated management system, which covers environmental protection, energy and quality, meets the requirements in the current versions of the DIN EN ISO 14001, 50001 and 9001:2015 standards. During the reporting period, this conformity was reviewed and recertified by the independent auditors from TÜV Rheinland Cert GmbH. No nonconformities with the standards were identified.

DEUTZ AG routinely sets its own targets under the integrated management system. The departments and the highest management level of our Company are jointly responsible for determining whether these voluntary targets have been achieved. Every year, they decide on appropriate measures to facilitate the attainment of the targets and make the necessary adjustments to processes.

Providing legal certainty In order to ensure that legal requirements and its own rules are satisfied, DEUTZ AG has assembled a team of auditors who examine all relevant areas of the business. Nonconformities and areas with potential for improvement are recorded and communicated and are actioned with the support of the Energy Management and Environmental Management departments. The individuals responsible for resolving the nonconformities and the deadlines by which this must be done are always clearly defined.

An approval procedure is in place to ensure that substances that can harm our employees, our customers or the environment are used as little as possible. As a downstream user of products, DEUTZ AG rigorously assesses its suppliers to check that they are compliant with the REACH and RoHS directives.

Energy management In 2018, the external auditors carried out a monitoring audit and recertified DEUTZ AG's energy management system under ISO 50001. As in previous years, there were no nonconformities. The system, with its monitoring instruments, is being continually improved in order to enhance transparency and enable energy flows to be recorded and allocated to the relevant stages of the production process. This makes us better able to plan and implement measures aimed at raising efficiency.

The gradual replacement of old light sources with smart LEDs is an example of the type of project whose economic impact can be estimated using this method. The approximately 75 per cent reduction in the amount of power used by lighting in the relevant areas of the business is resulting in a direct and substantial improvement in energy-related performance.

Energy consumption in our plants rose year on year due to the higher volume of units manufactured in 2018. This is particularly down to increased electricity consumption in production and assembly. The difference in the amount of heating (natural gas, heating oil and district heating) used is the result of the restructuring of our sites, where the various heating systems in use resulted in a shift in the proportion of energy sources. In total, the amount of heating required rose due to the higher number of shifts.

The ramp-up of alternative drive system production (see the 'Product responsibility' section on page 70) is leading to higher consumption of LPG as the fuel for these engines. This increase is more than offset by lower diesel consumption.

Through our energy management, we optimised the higher overall energy consumption caused by increased manufacturing output in such a way that fuel consumption per engine, which we report as CO₂ emissions per engine, was further reduced in 2018, exceeding the targets we set ourselves.

DEUTZ Group: Energy consumption in our plants¹⁾

MWh	2018	2017 ⁵⁾
Electricity	94,999	84,605
Natural gas	38,271	35,277
District heating	12,349	12,223
Heating oil ²⁾	3,359	3,653
Diesel fuel ³⁾	18,165	19,218
LPG ⁴⁾	633	421
Total	167,777	155,397

¹⁾Plants in the DEUTZ Group, excluding joint ventures.

²⁾At 10.5 kWh/litre (mean).

³⁾At 9.85 kWh/litre (mean).

⁴⁾At 12.8 kWh/kg (mean).

⁵⁾Prior-year figures are only partially comparable because no data was included for the subsidiary Torqeedo.

Targets for emissions reduction set For 2018, the DEUTZ Group again set itself the target of reducing CO₂ emissions per manufactured engine by at least 2 per cent per annum. And for the first time, we also set DEUTZ AG targets for dust and nitrogen oxide emissions. Both were to be reduced by 1 per cent per manufactured engine compared with 2017. Diesel engines do not generally emit benzene, and where they do so it is below the official measurements' threshold for detection. For this reason, benzene emissions are not reported on for 2018.

Factoring in sustainability at an early stage The optimisation of our network of sites, which was completed last year, is having a major effect on resource efficiency. The closure of the Cologne-Deutz site and the opening of the shaft centre in Cologne-Porz have greatly improved our energy efficiency. When designing its workspaces, DEUTZ AG takes sustainability aspects into account

as soon as planning starts. At the Porz plant, the supply of coolant has been centralised and the new shaft centre's flow of materials optimised from an economic and ecological perspective.

The amount of fluids consumed in mechanical fabrication at the Porz plant was down by 6.4 per cent (2017: 0.47 litres per shaft; 2018: 0.44 litres per shaft). In the period under review, we further reduced the throughput times¹⁾ of camshafts by around 18 per cent and of crankshafts by more than 63 per cent. This is attributable to the modernisation of machinery and the ongoing optimisation of work processes.

Nitrogen oxide and dust emissions fall below the approved thresholds Modern and efficient exhaust aftertreatment systems and modifications to make our engine products more environmentally friendly are substantially lowering the level of air pollutants released in tests carried out in our engine test bays. This is particularly significant given that emissions standards are becoming ever stricter. Routine measurements carried out by experts confirm that we comply with or fall significantly below the approved thresholds.

Cold tests significantly reduce carbon emissions A number of different measures are in place to achieve the aim of reducing CO₂ emissions. At DEUTZ itself, emissions are primarily produced by the engine test bays used in development and production. The optimisation of the duration and technical aspects of the test bay processes, often down to the tiniest details, is steadily reducing fuel consumption in the test bays per manufactured engine (2017: 11.23 litres per manufactured engine, 2018: 8.60 litres per manufactured engine). The implementation of the plan to 'cold test' some of the diesel engines is lowering the amount of fuel consumed by the testing of these engines to an absolute minimum. In a

cold test, comprehensive diagnostics are run on the engine without it needing to be started, which helps to reduce fuel consumption and emissions. The project to implement the cold tests was completed last year. The phasing in of cold testing for selected production engine series will commence in 2019.

Significant reduction in emissions The DEUTZ Group's primary environmental target is to reduce CO₂ emissions per engine manufactured by at least 2 per cent every year, and it did significantly better than this in 2018, cutting emissions by around 14 per cent. This is mainly attributable to the optimisation of the number of sites in Germany and the greatly expanded production programme. The overall impact will soon be enhanced by the introduction of cold testing, which reduces some of the test runs that engines have to undergo.

Nitrogen oxide and dust emissions are only reported for DEUTZ AG, as they are mainly generated in the test bays at the Cologne-Porz and Ulm plants. The fall in emissions per engine (NOx: down by 24 per cent, dust down by 19 per cent) is attributable to the 14 per cent reduction in fuel consumption in the engine development test bays at the Cologne-Porz plant.

¹⁾Mean throughput times of camshafts and crankshafts. The calculation method currently used differs from the one used in the prior-year calculation.

DEUTZ Group: Annual CO₂ emissions in our plants¹⁾

Tonnes	2018	2017 ²⁾
CO ₂ emissions (Scope 1)	13,530	13,239
CO ₂ emissions (Scope 2)	42,240	38,012
CO ₂ emissions (total)	55,770	51,251

Scope 1: CO₂ emissions from diesel, natural gas, LPG and heating oil caused by combustion in our own facilities.

Scope 2: CO₂ emissions relating to purchased energy (e.g. electricity, district heating).

¹⁾ CO₂ = carbon dioxide equivalents.

CO₂ emissions in plants in the DEUTZ Group, excluding joint ventures. CO₂ figures are reported in accordance with the Greenhouse Gas Protocol and are determined by multiplying the energy consumed by the relevant emissions factor. Prior-year figures have been adjusted in line with the new calculation method.

²⁾ Prior-year figures are only partially comparable because no data was included for the subsidiary Torqeedo.

DEUTZ Group: CO₂ emissions per engine¹⁾

Emissions per engine	2018	2017 ²⁾
CO ₂ (kg)	257	299

¹⁾ CO₂ = carbon dioxide equivalents.

CO₂ emissions in plants in the DEUTZ Group, excluding joint ventures. The other data relates only to German plants.

CO₂ figures are reported in accordance with the Greenhouse Gas Protocol. Prior-year figures have been adjusted in line with the new calculation method. The 'emissions per engine' figure is calculated by dividing total emissions by the number of engines made. CO₂ reporting includes scopes 1 and 2. Only combustion engines and electric motors are counted as manufactured units. Components such as batteries, gearwheels and piston rods for third-party engines are not counted.

²⁾ Prior-year figures are only partially comparable because no data was included for the subsidiary Torqeedo.

DEUTZ AG: Emissions per engine in our plants¹⁾

	2018	2017 ²⁾
Nitrogen oxide (kg) ³⁾	0.19	0.25
Dust (g)	1.80	2.21

¹⁾ The 'emissions per engine' figure is calculated by dividing total emissions by the number of engines made.

²⁾ In 2018, the scope considered for nitrogen oxide and dust changed compared to the previous year as from 2017 the figures were reported for DEUTZ AG and not for the Group. The figures for 2017 have been restated accordingly to allow for comparison.

³⁾ Only combustion engines and electric motors are counted as manufactured units. Components such as batteries, gearwheels and piston rods for third-party engines are not counted. Electric motors do not emit nitrogen oxide or dust.

TREATMENT OF EMPLOYEES

A pioneering spirit and innovation are key to the DEUTZ mission. To implement them, the Company needs highly qualified and motivated employees who will show initiative and ingenuity in pursuit of our objectives.

Because of the materiality of DEUTZ AG as the executive parent company, there is currently no overarching system that monitors the treatment of employees in the Group as a whole. Our reporting therefore focuses on the treatment of employees at DEUTZ AG. The subsidiaries are managed on an individual basis on account of different local circumstances. The local senior management teams regularly report on relevant matters to DEUTZ AG's management. Certain activities at DEUTZ Spain are also reported on in this section as examples of the DEUTZ Group's engagement at regional level.

Employee development and training DEUTZ AG has formulated the following goals in this area:

- Provide foundation training for specific specialist positions
- Fill vacancies for specialist/management roles with qualified internal candidates
- Nurture the creativity and commitment of employees at all levels and help them to develop their skills

The number of apprentices to be employed and their distribution across the various occupations is agreed every year with the Board of Management and a works council commission made up

of equal numbers of employer representatives and workforce representatives. Training management regularly reports to HR about the status of recruitment.

We systematically pursue our objective of filling specialist and management positions from within the Company by advertising all open vacancies internally. No annual target has been set in this regard.

We promote employee training and skills in particular by offering internal and external continuing professional development (CPD). This is based on the requirements of the departments, which are ascertained by conducting an annual survey of the line managers. No target figure has been set, for example for the number of CPD events or the amount of budget used.

Ideas management is an established method for promoting and rewarding our employees' creativity. A company-wide agreement is in place that outlines the procedure and the processes.

Training and development a high priority Measures in place at DEUTZ AG include succession planning processes, individual development plans, training in technical and IT professions, career guidance for young people, student programmes, support for part-time education (e.g. master's degrees), inhouse training courses and training courses run in collaboration with external providers. These measures are designed to continually develop our existing employees in the various functions and to attract suitably qualified candidates to join them in the Company.

DEUTZ AG has long been committed to providing vocational training. In Germany, our apprentices can train in careers ranging from electronics, mechatronics and metal engineering to

warehouse logistics and business administration. Our training centre in Cologne also provides vocational training for apprentices from other companies. The achievements of trainees and the DEUTZ training centre in Cologne are regularly recognised, and 2018 was no exception. For the eighth year in a row, the DEUTZ training centre was recognised by the Chambers of Industry and Commerce for its outstanding achievements in vocational training. DEUTZ AG apprentices were awarded 'best performer' certificates at regional and federal state level.

DEUTZ AG takes on apprentices after they have completed their training and recruits graduates who worked at the Company while they were studying. Technical and *meister* grade positions are generally filled by internal candidates. We have also improved skills training for employees and expanded the training programmes.

Our overall ratio of trainees to other employees at DEUTZ AG was 3.2 per cent in 2018 (2017: 2.5 per cent). We gave a permanent employment contract to all apprentices and trainees who passed their final examination. Currently, around 8 per cent of apprentices at DEUTZ are female.

Our Company also employed interns and students in the year under review. Some of the students wrote their bachelor or master's dissertations with us and some spent a semester with us to gain industry experience.

DEUTZ Spain nurtures talent In the year under review, DEUTZ Spain launched its second training programme for high-potential individuals, in which the four best engineering graduates from the Universidad de Extremadura and the two best graduates from the dual vocational training scheme rotate between three areas of the company (production, logistics and design). After each rotation, a project is presented and evaluated. The most promising participants in the programme will be employed on a permanent basis.

The opening of the DEUTZ Business School in Zafra moved a step closer last year, with construction work commencing after the capital expenditure was authorised. Talks were also held with potential partners. Teaching is scheduled to begin at the school in April 2019.

Professional training and development We run a special leadership programme for our management trainees that is tailored to their individual strengths. In 2018, a new cohort of high-potential employees were given the opportunity to prepare for their future roles in the Company. Their development targets and action plans were agreed on an individual basis.

We ran internal training courses and external events as part of our professional development programme, and specialist employees participated in skills training provided by the employers' liability insurance association. We continued to work successfully with the training provider *macils.management-centrum GmbH* on the implementation of specific workshops.

In 2018, as part of the DEUTZ quality offensive, twelve DEUTZ AG employees trained to become Lean Six Sigma Black Belts in accordance with the standards set forth by the American Society for Quality (ASQ). The 16-day training programme culminated in the completion of a Lean Six Sigma project.

Successful ideas management DEUTZ AG uses a bonus-driven ideas management scheme to harness the creativity of its employees.

Last year, the ideas that they submitted (an average of 23.3 per 100 employees) generated a benefit of €162 thousand.

This creativity pays off for employees and the Company in equal measure.

Commitment to the local workforce As well as training and developing its own employees, DEUTZ AG also provides general support to workers in the regions where it is based. The following initiatives complement the activities undertaken by the Company that are reported on in the 'Social responsibility' section.

Helping young people and the unemployed into work For more than 27 years, we have been working with IN VIA – an association under the auspices of the German Caritas organisation – and the German Federal Employment Agency to provide career preparation courses for young people with learning and social difficulties. In 2017/18, around 30 participants underwent basic metalwork/warehouse training over a ten-month period at the DEUTZ training centre. In the year under review, 82 per cent of those who completed this training secured a place on a vocational apprenticeship scheme or were hired, which is a relatively high proportion.

Successful integration of disabled workers DEUTZ has also successfully worked with GWK, a not-for-profit organisation based in Cologne, for more than 40 years. We have worked with GWK for many years on finding new areas of the business where the workshops could add significant value for DEUTZ AG and vice versa.

Today, some 200 people with disabilities work at the various GWK workshops and service centres where they provide services for DEUTZ AG. And we would very much like to expand this collaboration in the future.

Industrial placement in Spain As part of its Experiencing Europe programme, DEUTZ Spain gave young people from Germany the opportunity to complete an industrial placement in Spain. As well as finding out what it is like to live and work in another country, the participants were able to experience the common values of European integration at first hand.

WORKING CONDITIONS

Compliance with laws and agreements DEUTZ acts in accordance with the collective pay agreements, tax laws, social insurance guidelines and rules on variable remuneration that are currently applicable. Our corporate culture is built on respect for different cultural values and supports equal opportunities for all employees, regardless of gender, age, ethnicity, sexual orientation or disability. Our management culture helps managers and employees to work together efficiently and from a position of trust. DEUTZ strives for fair and appropriate remuneration for all employees.

DEUTZ champions diversity In 2018, we adopted a diversity plan for the Supervisory Board and Board of Management of DEUTZ AG. The objective is to consciously harness diversity as a means of driving the Company forward. After all, taking account of different perspectives, skills, backgrounds and experience will be key to maintaining our competitiveness and success over the long term. Diversity within the Board of Management will, in particular, help us to better understand new business models and the wide-ranging expectations of our customers from around the world.

DEUTZ Spain commits to gender equality DEUTZ Spain has signed an agreement with its works council guaranteeing equality for women and men.

Employee communications and consultation At all locations, the senior management team is closely involved in the implementation of measures. DEUTZ AG also follows the principle of codetermination, which gives workers a voice in company decisions. All pay-scale employees in Germany are subject to the collective pay agreement of the metalworking and electrical engineering industry. Employees are represented by a works council at each site. There is also a General Works Council with responsibility for matters concerning multiple sites. An elected Senior Staff Committee represents the interests of senior managers at DEUTZ AG. Both the works council and senior managers appoint representatives to the Company's Supervisory Board. Employee

rights are safeguarded by adherence to the Company's own corporate and management principles, collective bargaining agreements and the corresponding agreements with the employee representative bodies.

The myDEUTZ staff magazine, the intranet, noticeboards and ad-hoc announcements keep employees up to date with what is going on in the Company. Moreover, any employee can attend one of the local works meetings and have their voice heard if they feel this is necessary.

Childcare facilities Employees of DEUTZ AG in Cologne can have children under the age of three looked after at the 'DEUTZ-linge' day care centre, which makes it easier for them to return to their day-to-day work after parental leave. The centre, which opened in autumn 2017, is proving very popular with employees. More than 85 new fathers at DEUTZ AG made use of the option to take parental leave. In 2018, two members of staff looked after a total of seven children at the day care centre in Cologne-Porz.

Sharing profits with employees One of the ways that DEUTZ AG motivates its employees is by letting them share in its success. The Board of Management and General Works Council have agreed to annually reward all employees covered by collective pay agreements with a share of the Company's profits. DEUTZ AG also hosted celebrations for staff of DEUTZ AG and Torqeedo at the sites in Cologne and Ulm. All employees and their families were invited to the events, which proved extremely popular and further strengthened the feeling of togetherness within the Company.

Codetermination in action On the basis of the applicable collective pay agreements and laws, the employee representatives at DEUTZ AG are closely involved in the processes and in any action taken that concerns the treatment of employees (recruitment, remuneration, reassignment, development, dismissal). The objective is to agree mutually acceptable rules and arrangements for the matters at hand.

Key figures bear out the effectiveness of measures Average staff turnover¹⁾ at DEUTZ AG is very low at 0.79 per cent.

HEALTH AND SAFETY

Accident frequency A groupwide³⁾ accident frequency rate of less than 10 is a target that we have specified in the area of health and safety. Accident frequency is defined as the number of reportable accidents²⁾ per million hours worked and is known internationally as the recordable incident rate (RIR). This key indicator takes into account actual hours worked, so it includes overtime and weekend work.

A range of measures to achieve targets Ergonomics and work safety training, accident analyses and workplace audits were carried out across DEUTZ AG's Cologne-Porz site to promote the health and safety of our employees. New software for optimising movement patterns in assembly areas was introduced to provide insights into the health implications of specific movement patterns.

We put a range of measures in place to safeguard the health of our employees, including flu vaccinations, medical check-ups, sports events and campaigns run in conjunction with health insurance schemes. We also offered managers in assembly and production the opportunity to follow a multi-part training programme in health-oriented leadership.

Appropriate measures are in place to reintegrate members of staff at DEUTZ AG who have been on long-term sick leave. These measures are tailored to the individual circumstances of the employee in question.

At all locations, the senior management team is closely involved in the implementation of health-related measures through management reviews. External service providers and health insurance schemes are also involved.

¹⁾The figure for staff turnover only includes employees who resigned. Changes have been made to the calculation method compared with the prior year.

²⁾An accident is deemed to be reportable if it results in the injured employee being absent from work for more than three calendar days. The day of the accident itself is not counted.

³⁾Plants in the DEUTZ Group, excluding joint ventures.

Alignment with overarching standards In order to assess safety and the protection of its employees' health, DEUTZ AG and DEUTZ Spain have put in place a system for checking workspaces. IMS (Integrated Management System) has been introduced in Germany and OHSAS in Spain. The primary areas of focus are health, safety and the environment. The frequency with which these internal inspections take place depends on the extent and type of the risk presented by the machinery or workspace. Teams made up of experts from various disciplines carry out these workplace safety inspections in areas such as assembly and production. Any issues that are identified are documented in action plans that specify a timeframe for remedial measures to be taken.

Accident frequency The DEUTZ Group's RIR for the year under review was 15.0, which is roughly on a par with the prior year (2017: RIR of 13.4). The Group's target accident frequency rate of less than 10 was not achieved. This is primarily due to the sharp increase in the production programme and the higher number of concurrent workflows that resulted from this.

SOCIAL RESPONSIBILITY

Product responsibility is a cornerstone of our commitment to act as a good corporate citizen.

PRODUCT RESPONSIBILITY

As part of its mission, DEUTZ has set itself the target of delivering sustainability for its customers in the form of efficient, high-performance products. Against this background, we developed the E-DEUTZ strategy in 2018 and defined targets. The achievement of targets is monitored regularly and reported to the Board of Management. We also implemented further sustainability measures, which we report on below.

High recycling rate targeted DEUTZ AG has a target recycling rate of over 97 per cent for its internal combustion engines. Through its Xchange programme, DEUTZ already offers an established system that allows used engines to be returned so that they can be reconditioned in preparation for a second lifecycle. Xchange plays its part in improving sustainability, as having used engines professionally refurbished gives them an extended life. The number of Xchange engines sold increased by 16.6 per cent last year (2018: 7,533 engines, 2017: 6,463 engines).

We are helping to reduce local and global emissions through our E-DEUTZ and gas engine strategy. DEUTZ has set itself the target of generating between 5 and 10 per cent of its revenue from electric drive systems by 2022. As part of our advanced drive system strategy, we are testing and developing a range of alternative fuels that will allow our engines to run on a carbon-neutral and emission-free basis. In addition to electric drives, we are developing engines that use hydrogen and synthetic fuels made using renewable energy sources. Engines in DEUTZ AG's current product range meet US EPA Tier 4 and EU Stage IV and V, which are the world's strictest emissions standards. In 2017, DEUTZ became the first engine manufacturer in the world to be awarded an EU Stage V certificate. In 2018, in advance of EU Stage V taking effect on 1 January 2019, we manufactured and delivered the first Stage V engine.

DEUTZ customers can also run their engines on biodiesel, which is almost completely carbon neutral. All engines manufactured in 2018 that meet the EU Stage IV and US Tier 4 emissions standards have been approved for use with biodiesel. And DEUTZ is now taking biodiesel approval into consideration in all new developments and refinements of its drive systems.

Further information on the sustainability of our products can be found under 'Innovations' on page 72 of the 'Overarching topics' section.

CORPORATE SOCIAL RESPONSIBILITY

Because of the materiality of DEUTZ AG as the executive parent company, there is currently no overarching system that monitors corporate social responsibility in the Group as a whole. Our reporting therefore focuses on corporate social responsibility at DEUTZ AG. The subsidiaries are managed on an individual basis on account of different local circumstances.

Corporate social responsibility is a well-established tradition at DEUTZ AG. As a company with operations around the world, we of course shoulder our responsibilities as a corporate citizen. We have been involved in corporate citizenship projects for many years, not only in our home region in the area around Cologne but also throughout Germany and beyond.

Nurturing enthusiasm for technology The DEUTZ engine museum, which is open to the public free of charge, displays original machines from the early days of engine technology and documents the important role that DEUTZ played in the motorisation of the world. The museum continues to be popular, with more than 2,000 people visiting it last year.

DEUTZ AG is also working with investors and the City of Cologne to preserve historical features as part of the redevelopment of the former DEUTZ site in the Deutz and Mülheim areas of Cologne. A further highlight is the Motorworld Köln/Rheinland project on the site of the historic Butzweilerhof airbase in the Ossendorf district of Cologne. The role that DEUTZ played in the history of Cologne and the world is prominent in various sections of this brand-new exhibition. The site as a whole is called the Nicolaus August Otto Park, and the large event hall, which can accommodate several thousand people, is called the Four Stroke Hangar.

Playing our part in the community We support community projects in the region with our 'DEUTZ fulfils your wish' Christmas initiative. In 2018, youngsters from Kalker Kindermittagstisch wrote down their wishes on 'wish notes' and hung them on the Christmas tree in the foyer at our head office in Cologne-Porz so that DEUTZ AG employees could make their wishes come true.

At the Ulm plant, DEUTZ AG apprentices once again supported a community-based project at Easter. There were collections throughout the plant, and the money was used to fill around 100 baskets with all kinds of Easter treats and vouchers.

Integrating people from disadvantaged backgrounds DEUTZ AG also puts the principles of good corporate citizenship into practice in the apprenticeships that it runs. The Company continued to work with IN VIA and GWK to support young people and the unemployed (see 'Treatment of employees', page 67) and launched a number of new initiatives last year.

For example, two Syrian refugees were given introductory training in metalworking and parts manufacturing at DEUTZ AG in Ulm as part of a special programme designed to prepare them for a full apprenticeship.

DEUTZ AG then offered the pair a place on the Company's industrial mechanic apprenticeship scheme beginning 1 September 2018, which they both accepted.

In addition to its work in vocational training, DEUTZ also supports employees with disabilities. Further information can be found in the 'Treatment of employees' section on page 67.

DEUTZ choir represents the Company The company choir regularly creates positive publicity for the DEUTZ name through its concerts and other appearances, which range from performances for staff and customers and local concerts at the Cologne Philharmonic Hall and Cologne-Gürzenich events centre to tours to churches and concert halls in Germany and abroad. The choir also supports good causes. Donations collected from concert-goers were again distributed to a number of charities last year. These included the 'We help' charity of the Kölner Stadtanzeiger newspaper and the Kölnische Rundschau newspaper's 'Good deeds for the elderly' charity.

Building bridges between industry and the arts: a highlight of last year, and good publicity for DEUTZ, was the concert tour that visited Italy, Switzerland and Germany. The three major public concerts and the four performances held in the factories of prestigious customers were well received. The patron of the DEUTZ choir is the Chairman of the DEUTZ AG Board of Management, Dr Ing Frank Hiller. This sends a strong signal, both internally and externally, of the choir's significance for the Company.

COMPLIANCE

General compliance, corporate governance and the fight against corruption and bribery play an important role in compliance. As measures to combat bribery and corruption form an integral part of the compliance management system (CMS), these key topics are explained together.

GENERAL COMPLIANCE AND MEASURES TO COMBAT BRIBERY AND CORRUPTION

DEUTZ considers it very important that all employees adhere to the rules imposed by the law, authorities or the Company at all times and without exception. Employees are also expected to demonstrate irreproachable ethical and moral conduct in their day-to-day work and when dealing with competitors. We will always refrain from engaging in any transaction that is inconsistent with these values. The Board of Management is also fully committed to compliance with competition law and has zero tolerance for any form of corruption. It strives to act in accordance with ethical principles at all times.

The prime objective of the groupwide CMS is to prevent violations of applicable laws, rules, regulations and internal policies. To this end, employees are given help in familiarising themselves with the relevant laws and policies as well as guidance on how to apply them correctly.

Compliance organisation in place A Compliance Officer appointed by the Board of Management coordinates compliance activities within the Group. The individual business units and subsidiaries have their own compliance coordinators, who are responsible for compliance in their organisations and present structured written reports twice a year to the Compliance Officer. The Compliance Officer in turn reports to the Board of Management and Audit Committee.

As well as information on the focus of compliance activities and changes to the legal situation or compliance organisation, the reports also detail possible risks and the countermeasures in place to mitigate or eliminate these risks. The basic principles of the compliance organisation are set forth in a compliance policy.

Regular meetings are held to develop, discuss and coordinate the compliance activities that need to be initiated across the Group. The Compliance Officer invites the compliance coordinators to these meetings. The compliance activities focus on preventing corruption, tackling money laundering and complying with export regulations (including export controls). They also ensure safety in the workplace, IT and 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 as part of their efforts to continuously improve the CMS. The internal audit department advises on all activities. The CMS is also reviewed by internal audit or by external consultants, and is monitored by the Audit Committee on behalf of the Supervisory Board.

Code of conduct sets the tone Compliance with the CMS principles is set out in the code of conduct, which provides the framework for ensuring that behaviour towards business partners and employees is fair and in compliance with the law. The code of conduct forms the basis of a structured system of policy management that is continually updated. Other policies, such as the gifts and entertainment policy, the policy on the engagement of external distributors, the anti-money laundering policy and the insider trading policy, provide employees with binding rules on specific issues relevant to their day-to-day work. Training is intended to ensure that employees are aware of the applicable laws, rules, regulations and internal policies, and that they comply with them at all times in their day-to-day work.

Whistleblowing system also available to third parties 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. And since the beginning of 2017, DEUTZ AG's website has featured a whistleblowing system that is also accessible to third parties (<https://www.deutz.com/en/about-us/compliance/>). Any information supplied is rigorously followed up, with external support called in where necessary.

More intensive training When it comes to training its employees, DEUTZ uses not only classroom-based methods but also the established groupwide e-learning programme.

At the start of the year, all of DEUTZ's administrative employees¹⁾ (including employees of foreign affiliates, 2,136 employees, as at 31 December 2018) are assigned training modules that they are asked to complete before the end of the year. The assigned modules (fair competition, anti-corruption, information security) are based on their individual requirements. By the end of 2018, a total of 1,998 (93.5 per cent) of all administrative employees within the Group had completed the training.

Head-office employees in the sales, procurement, research and development and administration units, as well as in the subsidiaries, also generally receive annual classroom-based training that is specifically tailored to their areas of activity.

Classroom-based training on compliance issues is provided every year for non-administrative employees, most of whom work in the plants. These employees are also given regular safety training.

In 2019, a further e-learning module on health and safety at work is being added to the training catalogue. It is to be completed by all administrative employees.

OVERARCHING TOPICS

Customer satisfaction, innovations and supplier management are important overarching topics. Because of the materiality of DEUTZ AG as the executive parent company, there is currently no system that monitors overarching topics in the Group as a whole. Our reporting therefore focuses on DEUTZ AG.

CUSTOMER SATISFACTION

Customer satisfaction is a high priority for DEUTZ. Everything we do is focused on our customers and their needs. We measure customer satisfaction based on the success of current customer projects, and we have set up a system to monitor the sales projects in each region. The status of these projects is regularly reported to the Board of Management in a sales review with senior local managers. Customer feedback on the progress of projects forms an essential part of the report. The aim of monitoring is to identify potential obstacles, and if the same obstacles are encountered repeatedly, we can put measures in place to improve customer satisfaction. This procedure was introduced at the end of 2018. In 2019, we will include the customer projects in the targets for the sales units, thus making them measurable.

We have continued with and expanded the existing activities aimed at increasing customer satisfaction and the quality improvement projects initiated in 2017 as part of our zero-defect strategy. DEUTZ AG's quality offensive also encompasses the introduction of Lean Six Sigma as a management system. Six Sigma projects focus particularly on improving delivery reliability and increasing the speed at which customer enquiries are processed. The relevant projects were implemented last year.

¹⁾ Here, the term administrative employees includes all individuals employed by the DEUTZ Group as at 31 December of a particular year who are integrated into the Group's IT infrastructure, have access to a PC and speak either German or English, as the e-learning modules are available only in these languages. It excludes employees who left the Company during the year, were on parental leave or were on long-term sick leave and therefore absent for more than 50 per cent of the year.

In addition to quality improvements, we believe that DEUTZ's innovative modular approach will also play a part in increasing customer satisfaction. The development of efficient and sustainable drive systems is giving our customers a reliable basis for planning. Under the advanced drive systems strategy, DEUTZ is able to supply modular drive concepts that can be customised for different fuel types, power requirements and emissions standards. This means minimised capital expenditure risks and shorter implementation times for customers when they switch or upgrade their technology. We also work closely with our customers on the development of new drive technologies, including as part of the E-DEUTZ project, which was launched at the Intermat trade fair in April 2018 in Paris. It was the first time that DEUTZ had presented its expertise in electric drive systems on the public stage. DEUTZ customers and other interested parties then got to see the results of the Company's electric drive developments at first hand. At the ELECTRIP event, which was held after the trade fair, all key stakeholders were able to experience for themselves the performance of DEUTZ's electric drive systems on water and on land.

INNOVATIONS

Our aim is to position DEUTZ as a leading manufacturer of innovative drive systems. Innovations at DEUTZ AG are primarily in one of the four following areas:

- 1) Alternative fuels: As well as looking at liquefied petroleum gas (LPG), we are focusing on natural gas, hydrogen and fuels generated from renewable sources.
- 2) Hybrid and all-electric drive systems: All-electric drives and the combination of internal combustion engines and electric motors (hybridisation) are key pillars of our development work.
- 3) Digitalisation: There is a particular focus on innovative digital solutions that offer our customers new services (connectivity, smart services for engines).

- 4) Market monitoring and refinement of existing products and technologies: Our production engine technology is analysed and optimised on an ongoing basis. The objective is to generate a high level of customer satisfaction across all applications.

Centralised research and development At DEUTZ AG, most innovations originate from the central R&D department in Cologne-Porz. Our DEUTZ Corporation and Torqeedo subsidiaries are involved at an early stage in product planning so that they can actively contribute their market-specific requirements to the development and innovation process. DEUTZ Corporation focuses in particular on US emissions legislation (EPA, CARB). Torqeedo is most closely involved in the innovation process when it comes to hybridisation and electrification.

Within DEUTZ AG, the product management department is responsible for monitoring the market and for the product requirements that result from this. Members of the Board of Management are among those that attend its quarterly 'Product Boards', at which market trends and preliminary development work are discussed and other development activities are initiated and prioritised. New products are developed and made production ready with the aid of the well-established product development process (PEP). Technologies and concepts are evaluated under our preliminary development process and brought to project readiness. We carry out internal and external development work in order to achieve the Company's targets. In the case of external development work, we collaborate closely with development partners that include suppliers, universities and research institutes.

Innovation centre opens in Cologne In November 2018, we opened a new innovation centre. Located at the Cologne-Porz site, it provides DEUTZ employees with space to work on ideas, develop them into prototypes, and shape them into a project, product or investment opportunity.

The focus of the visionary facility is on joint project work, networking and brainstorming. A range of formats such as mentoring sessions, pitch training and creative workshops will support employees in defining and implementing their ideas. The DEUTZ Accelerator innovation concept will provide additional support with developing their idea and designing a business model. The latest technology in the shape of a Microsoft Surface Hub, 3D printers and augmented reality is also available for this.

In 2018, the Fraunhofer Institute for Production Technology (IPT) commended DEUTZ AG for its exemplary use of agile development methods within the innovation process. Five companies from a field of 159 received IPT's Successful Practices title and we were among them.

Torqeedo drives forward E-DEUTZ strategy Torqeedo, the company that we acquired in 2017, serves as the nucleus for the E-DEUTZ strategy, under which we are developing hybrid and all-electric drives for off-highway applications. Torqeedo's expertise in electric-powered drive systems is providing a huge boost to innovation at DEUTZ. Torqeedo also brings new products to market that consolidate and extend its competitive edge in the market for electric drives for boats.

The DEUTZ AG senior management team is closely involved in innovation activities via the 'Product Boards'. At these meetings, which are attended by representatives from product management, sales and service, the Board of Management discusses the status of preliminary development and approves suitable projects for the next stage of development. Subsidised projects are discussed by a committee below the level of the senior management team.

A wide range of innovations launched Last year, we presented a number of pioneering new developments that stemmed from our innovation activities. At the ELECTRIP event held for DEUTZ customers, we showcased our E-DEUTZ strategy by demonstrating

fully functioning prototypes of customer vehicles fitted with hybrid and all-electric drives. Participants were able to test drive the vehicles to get an idea of their functionality and usability.

We are also committed to investing in the digitalisation of our service products, including the DEUTZ Connect app, a tool for remote engine diagnostics. A wide range of market and machine data is collected and analysed for this purpose. This allows us to continually increase the benefits for customers and offer made-to-measure solutions. Moreover, our new web shop has brought the DEUTZ service network online.

In product development, we are committed to applying agile methods on a more widespread basis. Our positive experiences in the field of software development, for example, are now being brought to bear in other development disciplines.

Further patents and awards received We use patents, patent applications and utility models to safeguard our expertise against unauthorised use by third parties. In 2018, DEUTZ AG submitted twelve new patent applications, ten of which were in Germany. DEUTZ AG now holds a total of 117 patents registered in Germany and 165 registered elsewhere.

In recent years, Torqeedo has won multiple accolades for its innovative products and environmental credentials. At the 2018 European Commercial Marine Awards, for example, it was recognised in the Maritime Sustainability category for its contribution to the ECOcat, a 120-passenger electro-solar ferry that has been built for use in Spain and will be powered exclusively by solar energy. The propulsion system is based on Torqeedo's Deep Blue electric motors and high-capacity batteries.

This year, we have summarised the information on ideas management at DEUTZ AG in the 'Treatment of employees' section on page 67. Further information on research and development can be found in the combined management report on page 32.

SUPPLIER MANAGEMENT

DEUTZ places great value on supplier management, as our suppliers' performance directly influences the course of our business. DEUTZ AG's overarching supplier management system¹⁾ is designed to continually improve quality, lead times, commercial conditions and general communication with our suppliers. There is a clear focus on supplier development. As part of this quality improvement process, target defect rates are defined for each product group, communicated to the suppliers and regularly monitored, and we initiate appropriate remedial measures where necessary. Our overarching objective is to have zero defects. All new original equipment suppliers need to be approved by DEUTZ AG based on self-declarations, feasibility studies, and supplementary documents and criteria. This process usually includes a site audit. The DEUTZ Group uses only certified original equipment suppliers (certified to ISO 9001:2015 as a minimum).

Close monitoring of suppliers DEUTZ AG manages its suppliers using a 'supplier cockpit'. We use this to monitor suppliers' performance from purchasing, delivery and quality perspectives and, in the case of development partners, with regard to their research and development capabilities and their ability to innovate. Before being included in the cockpit, suppliers must first be categorised accordingly. Their results for the individual KPIs and how these change over time are used to initiate remedial measures and improve performance.

On a monthly basis, the senior management team at DEUTZ AG is provided with information about the procurement budget and other KPIs in the balanced scorecard. This monthly procurement management report contains key figures for the Board of Management, including key financials and KPIs related to quality. The Board of Management confirmed the underlying targets.

In 2018, DEUTZ AG again carried out numerous activities to ensure compliance with the international regulations pertaining to REACH, RoHS and conflict minerals. The steering committee met at least every two weeks to adopt measures in response to changes in international regulations and to initiate process improvements.

Plans in place for supplier code of conduct Compliance with environmental, social and sustainability standards throughout the supply chain is a key concern for DEUTZ AG. So in 2018, we decided to develop a code of conduct for suppliers that would specify minimum standards for environmental protection, labour, safety and integrity and thereby clearly formulate what DEUTZ AG expects of its suppliers. In 2019, DEUTZ AG will communicate this code of conduct to all global and local suppliers and run a sustainability campaign to make them more aware of DEUTZ AG's expectations and requirements.

From 2019, to ensure that the suppliers are taking account of these standards and requirements in their processes, key elements of the code of conduct are being included in the supplier self-declarations and supplier audits. The results will be documented in the digital supplier records. Once suppliers have been made aware of the code of conduct, they are required to provide confirmation of their compliance.

¹⁾ The statements relate to direct suppliers that have a contractual relationship with DEUTZ.

In the case of suppliers from particularly critical countries, the focus will be put on qualification measures that will help these suppliers to comply with the standards. If the standards are breached, the suppliers will be requested to make improvements as a first step. If they do not comply with this demand within a reasonable period of time, the supplier relationship may be terminated.

Regular monitoring of KPIs DEUTZ met its 2018 targets for delivery quality from its external suppliers for both initial samples and full production. Particularly positive is the historically low defect rate in parts per million (ppm). The results show that the continuous improvement process (CIP) and the measures we have taken are effective.

INDEPENDENT PRACTITIONER'S REPORT ON A LIMITED ASSURANCE ENGAGEMENT ON NON-FINANCIAL REPORTING¹⁾

To DEUTZ AG, Köln

We have performed a limited assurance engagement on the combined separate non-financial re-port pursuant to §§ (Articles) 289b Abs. (paragraph) 3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of DEUTZ AG, Köln (hereinafter the "Company") for the period from 01 January to 31 December 2018 (hereinafter the "Non-financial Report").

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

INDEPENDENCE AND QUALITY CONTROL OF THE AUDIT FIRM

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement, we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 01 January to 31 December 2018 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization
- Inquiries of personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the consolidated financial statements and in the group management report
- Evaluation of the presentation of the non-financial information

¹⁾PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the combined separate non-financial report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

ASSURANCE CONCLUSION

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 01 January to 31 December 2018 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

INTENDED USE OF THE ASSURANCE REPORT

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt, 6 March 2019

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