

**DEUTZ**

# **Declaration of principles**

Pursuant to section 6 (2) of the German Supply Chain Due Diligence Act (LkSG)

December 2024



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## 1. Preamble

The successful and sustainable management of a company depends not only on the achievement of targets but also on the manner in which they are achieved. Our aim is to combine commercial success with the fulfillment of our environmental, social, and corporate governance responsibilities. This ambition is reflected in the name of our groupwide sustainability strategy, Taking Responsibility.

Key elements of our current sustainability strategy include environmental protection and respect for human rights, both in our own business and beyond. In this regard, we are committed to international laws, conventions, and declarations such as the UN Guiding Principles on Business and Human Rights, the UN Universal Declaration of Human Rights, the fundamental conventions of the International Labour Organization (ILO), and the ten principles of the UN Global Compact. Their content and principles are the basis for our codes of conduct.

By publishing this declaration of principles, we meet the requirements of the German Supply Chain Due Diligence Act (LkSG), which came into force on January 1, 2023. This declaration also documents the expectations we have of our employees and suppliers regarding human rights and the environment. We view the consideration and fulfillment of these expectations as an essential part of our internal and external interactions that will help to secure the long-term success of our business. And because transparency is equally important for this, we update this declaration of principles regarding our human rights strategy as required, but at least once a year, and make it publicly accessible on our website.

DEUTZ Board of Management, December 2024



Dr. Sebastian Schulte



Oliver Neu



Dr. Ing. Petra Mayer



Dr. Ing. Markus Müller

## **2. Management of risks relating to human rights and the environment**

We regularly conduct risk analyses to adequately and effectively fulfill our due diligence obligations regarding human rights and the environment. To this end, we have developed standardized processes and measures that enable us to systematically identify and assess potential and actual risk in our own business and in our supply chain. As the next step, we can then put suitable preventive measures in place in our own business and with regard to our direct suppliers where required and, at the same time, develop and initiate effective remedial action.

In certain cases, we might carry out an ad hoc risk analysis in addition to the regular risk analyses, for example if there is a change in our business activities or we gain substantiated knowledge, resulting from the receipt of information, of a change in the risk situation.

### **2.1 Analysis of risks related to human rights and the environment**

#### **How do we analyze and/or identify risk in our own business?**

We follow a three-stage process to determine risks relating to human rights and the environment in our own business:

1. Identifying risks using an established information tool that draws on internal and external data sources – including reports on working practices, human rights, and environmental matters – and enables continuous abstract monitoring
2. Holding expert meetings in the areas of corporate compliance, quality management, environmental protection and occupational health and safety, purchasing, human resources, and internal audit
3. Identifying risks at DEUTZ AG and in all foreign subsidiaries by means of an LkSG-specific questionnaire

Only selected foreign subsidiaries had undergone the questionnaire-based risk analysis in 2023 but, as planned, we have now extended it to all subsidiaries. DEUTZ AG plus a further 21 subsidiaries were requested to complete a total of four

questionnaires covering LkSG-related topics. The responses were then evaluated in terms of LkSG-related risks and infringements.

### **How do we analyze and/or identify risk in our supply chain?**

We also follow a three-stage process to identify human rights risks and environmental risks in our supply chain. The first stage is an abstract risk analysis using an established tool that draws on information in the public domain and enables continuous monitoring. Using predefined data sources, the tool filters reports to identify those that pertain to relevant risks, for example in connection with work practices, human rights issues, or environmental matters. Furthermore, product groups and countries are assessed in terms of how critical they are in relation to relevant aspects of LkSG. All the risks identified in this way are fully documented and their level of priority determined, taking the level of influence that we are able to exert into consideration. In the second stage, these suppliers are contacted and requested to take part in a specific risk analysis. This is carried out via two web-based assessment platforms for global procurement chains that cover areas such as the environment, ethics, labor rights, and human rights and enable an in-depth risk analysis in the categories defined in section 2 (2) and (3) LkSG. In addition to the prioritized suppliers, our top 150 suppliers by revenue are also invited to take part in the aforementioned in-depth analysis on a voluntary basis.

In the third stage, the preventive and/or remedial measures we deem necessary are defined based on the results of our risk analysis, and the affected suppliers are asked – automatically via the selected assessment platform – to implement the corrective measures that are either determined using the system or generated directly by the system itself on the basis of the results. In addition, the results are regularly communicated to the key decision-makers in the purchasing department and continually factored into our decision-making processes.

The process described above is also applied on an ad hoc basis to indirect suppliers<sup>1</sup>. An example of this would be if, either via the whistleblowing system or from other

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<sup>1</sup> Indirect suppliers are actors in the upstream supply chain that do not have a direct business relationship with DEUTZ. In accordance with section 2 (8) LkSG, this applies to any company that is

sources, we received substantiated information about the existence of (potential) risks relating to indirect suppliers.

## **2.2 High-priority human rights risks and environmental risks**

### **What risks have we identified in our own business?**

In both 2024 and 2023, the risk analyses described above identified environmental risks in our own business. These risks relate to persistent organic pollutants (POPs) or mercury contained in our products and to toxic waste. We are mitigating these risks by taking regular measurements and conducting detailed inspections, the underlying processes for which are reviewed regularly. Some of these reviews form part of the regular external audits carried out in connection with our environmental management system, which is certified in accordance with DIN EN ISO 14001:2015.

The aforementioned risks have not resulted in actual violations.

### **What risks have we identified in our supply chain?**

The aforementioned risk analyses have identified both human rights risks and environmental risks at direct suppliers. These risks related in particular to occupational health and safety, diversity and discrimination, working conditions and wages, social dialogue, and pollution. However, it should be noted that many of the risks appear to be due to a lack of documentation on the part of our suppliers.

We will continue to monitor the identified risks as a priority to ensure that we can react promptly to any changes in the risk situation.

To the best of our current knowledge, there were no actual breaches of human rights or environmental obligations in our supply chain.

## **2.3 Preventive measures in our own business**

The value we place on environmental protection and respect for human rights is reflected in our support for the ten principles of the UN Global Compact and in our

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not a direct supplier of DEUTZ and whose supplies are essential to the manufacture and utilization of our engines and services.

codes of conduct and established quality management systems. Our environmental and energy management system, for example, is certified to the international DIN EN ISO 14001:2015 and ISO 50001:2018 standards, while our occupational health and safety management is ISO 45001 certified. The certificates can be viewed on our website.

**Code of conduct and human rights code** Our general code of conduct is the primary means of providing our employees with guidance on how to conduct themselves with integrity and in accordance with the law. The code contains mandatory rules on how to act and behave that cover areas such as respect for human rights, working conditions, social responsibility, and environmental protection. Organizational policies on specific topics supplement the code of conduct. They provide an overview and specific details about both statutory provisions and internal rules, and all employees are required to abide by them. Because of our global activities, our employees operate within different legal frameworks and value systems. To ensure that every employee follows standardized rules of behavior in spite of this, our code of conduct is applicable across the Group and available in several languages.

As a member of the United Nations Global Compact, we attach particular importance to respect for human rights. With this in mind and to supplement our general code of conduct, we have implemented a groupwide human rights code. This code enshrines the human rights principles that are most important to us at international and national level.

**Compliance training** As an additional preventive measure, and to support our employees in their efforts to avoid breaking the law or breaching regulations, we provide general compliance training that is mandatory for all participants plus specialist compliance training. The courses take the form of e-learning and must be completed by all administrative employees<sup>2</sup> annually. In addition to courses on LkSG, the modules cover topics such as the German General Equal Treatment Act (AGG) and non-discrimination, occupational health and safety, and data protection. Tests confirm whether an e-learning course has been completed and the content of the training

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<sup>2</sup> All individuals who are employed by the DEUTZ Group, including its foreign affiliates, and who can connect to the Group's IT infrastructure and have access to a PC.

assimilated. Disciplinary action may be taken if an employee fails to participate in the e-learning. See also the 2023 non-financial report, p. 119 onward.

Regular classroom-based training is provided for non-administrative employees.

## 2.4 Preventive measures for direct suppliers

**Business partner compliance check** As a rule, all suppliers undergo a mandatory business partner compliance check before entering into a business relationship with DEUTZ. The company itself, the members of its governing and supervisory bodies that it has appointed, and the beneficial owners are checked against up-to-date sanctions lists and questioned on fundamental aspects of compliance. These checks would provide an initial indication of any risks relating to human rights and/or the environment. See also the 2023 non-financial report, p. 120.

**Supplier Code** The DEUTZ code of conduct for suppliers (Supplier Code) is a key instrument in our efforts to communicate sustainability matters to our supply chain. The code sets out mandatory groupwide requirements, for example with regard to compliance with occupational health and safety standards and environmental standards, as well as respect for human rights. It also reflects our expectation that suppliers pass the demands we make of them on to their own suppliers. LkSG, the Universal Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights, and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises provide the basis for our Supplier Code. Since 2020, our Supplier Code has formed part of all new supplier contracts and our general purchasing conditions.

**Site audits** The Supplier Code is a mandatory element of all more recent standard supply agreements and firmly integrated into the general purchasing conditions to ensure compliance to the greatest possible extent. In order to track its effectiveness, we conduct audits of both existing and new suppliers to assess their compliance with the requirements set out in the code. See also the 2023 non-financial report, p. 130 onward.

**System-supported corrective measures** Using system-supported, tailored corrective measures defined on the basis of the detailed risk analysis, we are able to



react in a targeted manner to risks identified at our suppliers and thus improve the risk situation quickly and effectively.

**Buyer training** On a regular basis (at least once per year), we provide information and training for our relevant buyers in order to increase their awareness of the LkSG requirements. Going forward, we intend to continually develop this type of training and target it at specific groups to ensure that everyone involved has a comprehensive understanding of our due diligence obligations regarding human rights and the environment.

**Supplier training** In 2024, we developed an extensive LkSG document for suppliers that is available in German, English, Spanish, French, and Chinese. The document is primarily aimed at communicating to our suppliers our expectations regarding trust-based and sustainable collaboration on the basis of key statutory requirements and guidelines. It also shows them how our expectations can be anchored in their business.

## **2.5 Remedial measures**

Where we become aware of potential or actual human rights breaches occurring directly or indirectly within our sphere of influence as a business, we endeavor to take appropriate remedial measures. The departments in which a breach occurred are responsible for implementing the measures.

### **What preventive measures are we taking in our own business?**

If suspected violations or breaches are subsequently confirmed and can be attributed to a DEUTZ employee, we will take appropriate and proportionate measures in line with our internal guidelines. These may take the form of measures under employment law and/or disciplinary action. A groupwide compliance policy defines how compliance violations are handled and what remedial measures are taken. See also 'Complaints procedure', p. 13.

### **What preventive measures are we taking for direct and indirect suppliers?**

Should we discover or receive proof that direct and/or indirect suppliers are, or imminently will be, responsible for violating human rights and/or environmental

obligations, we would take immediate action to prevent, end, or minimize the specific violation. We would then work with the relevant supplier to develop a tailored action plan of remedial measures. The corrective measures generated by the system as part of the tools used for risk analysis would support this process. See also 'Analysis of risks related to human rights and the environment', p. 4 onward. Depending on the severity of the violation, we might consider temporarily suspending the relationship with the affected supplier while the agreed remedial measures are being implemented.

We reserve the right to terminate a business relationship as a last resort for very serious violations of human rights or environmental obligations. This would be the case, for example, where the supplier concerned refused to assist with the implementation of the agreed plan of remedial measures or where our efforts would have no effective influence on those committing the violations.

### **3. What we expect from our employees and suppliers with regard to human rights and the environment**

#### **What do we expect from our employees?**

The successful and sustainable management of a company depends not only on the achievement of targets but also on the manner in which they are achieved. Our objective is to strive for commercial success while fulfilling our corporate, social, and environmental responsibilities. This ambition is reflected in the name of our sustainability strategy, Taking Responsibility, and in our corporate values. For us, taking responsibility means that we act in accordance with the laws of the countries in which we operate, that every employee complies with our internal policies and general standards of conduct at all times, and that every one of us shows integrity and adopts an ethical and moral approach in day-to-day business conduct toward others. With this in mind, we expect our employees to meet the requirements set forth in our code of conduct and human rights code, and as a minimum to take part in mandatory support formats such as our compliance training.

## **What do we expect from our suppliers?**

We expect our employees to comply with applicable laws and provisions and internationally recognized human rights and environmental protection standards at all times, and we expect the same of our suppliers and all other business partners. This includes, in particular, compliance with and implementation of our supplier code of conduct and human rights code, which document our core expectations and the principles that are most important to us.

The challenges relating to human rights and the environment can only be met if we all pull together, which is why we will be calling for more transparency from our suppliers in the future. Specifically, we will expect greater willingness to participate in our risk assessments and share related information.

Taking the results of our risk analyses and/or the proposed preventive and remedial measures into account, we will remind affected suppliers to put the measures in place with the appropriate level of urgency. Furthermore, we expect all of our suppliers to take steps to continually improve their performance, including in relation to other matters relating to human rights and the environment. In particular, we expect them to maintain an appropriate and effective risk management system that covers the aforementioned matters and to pass our expectations and requirements on to their supply chain.

## **4. Reviewing the effectiveness of due diligence**

We comprehensively review the effectiveness of due diligence in our own business and in our supply chain on an ad hoc basis, but at least annually. The focus is on the measures in our due diligence process that relate to the elimination or mitigation of negative impacts on human rights and the environment.

## **4.1 Reviewing effectiveness across our business**

We conduct reviews to determine whether we are fulfilling our due diligence obligations effectively. To this end, we use the LkSG-specific questionnaires that are completed by DEUTZ AG and all subsidiaries annually. Over the course of the year, the central compliance department maintains a dialogue with the people responsible at local level in order to verify the effectiveness of due diligence across our business. Furthermore, existing preventive and remedial measures are reviewed, and further measures taken as necessary, when new risks are identified.

## **4.2 Reviewing effectiveness at suppliers**

We continually monitor the effectiveness of our preventive and remedial measures within the supply chain using the risk analysis tools described above. Additionally, a cross-departmental team meets regularly to discuss the results achieved so far and any possible subsequent need for future measures to be adapted.

To ensure and monitor the effectiveness of the Supplier Code – and compliance with the requirements therein – to the greatest possible extent, we also conduct needs-based and ad hoc site audits of both existing and new suppliers. We have set ourselves clear targets in this regard in our sustainability strategy. See also the 2023 non-financial report, p. 130 onward.

## **5. Complaints procedure**

Having an appropriate and effective complaints procedure is an integral element of our due diligence processes, as human rights breaches and environmental violations cannot be ruled out despite all the aforementioned measures and processes. In order to identify, at the earliest possible stage, behavior that violates laws or regulations and to immediately put a stop to any proven misconduct, employees and third parties are provided with various means for reporting concerns. These confidential mechanisms facilitate the reporting of suspected violations and breaches caused by us or relating to our business, as well as those resulting from the actions of a direct or indirect supplier to our company.

The publicly available whistleblowing system on our website is a key tool for reporting suspected violations and breaches. All stakeholders of the Company can use it at any time to report, anonymously if they so wish, suspected violations or to make a complaint, and to request an investigation and remedial action. Actual or suspected violations can also be reported by email, post, or fax. In addition, employees have the option of contacting their line manager, the Chief Compliance Officer, the compliance coordinators, the HR department, or the employee representatives directly. They can also do this in cases of doubt or if they have questions about how to apply the principles of our code of conduct and guidelines in practice.

The compliance organization employs a standard process to systematically investigate every report of a suspected violation, and every report is documented in a uniform, mandatory way and treated in accordance with the groupwide compliance policy. The procedure it defines takes into account the presumption of innocence in favor of the accused as well as the right of employee representatives to be involved, and is intended to ensure impartiality, fairness, and transparency. This includes upholding the proportionality principle with regard to the individuals affected and protecting the whistleblower by maintaining strict secrecy and confidentiality. Neither the name of the whistleblower nor any information that could reveal their identity is disclosed to the subject of the reported suspicion or the wider public. The identity of the whistleblower is revealed only in exceptional circumstances, for example if required by law. Any potentially grave violations are investigated in line with the aforementioned process by a specially appointed compliance committee comprising the Chief Compliance Officer, the Head of Legal, the Head of Corporate Audit, and the Head of HR.

If suspected violations or breaches are subsequently confirmed, we will take proportionate and appropriate action against the relevant employees or business partners. If a violation can be traced back to an employee or employees of the DEUTZ Group, measures under employment law and/or disciplinary action will be taken in accordance with internal policies. In the event of violations on the part of one of our suppliers or other business partners, sanctions will be imposed, which may include the business relationship being suspended while efforts are made to minimize the risk. The relationship may even be terminated in the event of severe breaches.

No whistleblower who provides us with information that is correct and complete to the best of their knowledge will be penalized or disadvantaged. Any incidents of discrimination, intimidation, or hostility in connection with suspicions reported via the DEUTZ whistleblowing system are investigated and punished in the same way as all other incidents. Our aim is to encourage any whistleblower to call out potential infringements.

The complaints we receive and all confirmed violations feed into our continuous improvement process. We also use them to identify any recurring issues, which in turn allows us to pinpoint potential weaknesses and continually improve processes.

## **6. Responsibilities**

To be able to fulfill our due diligence obligations, we need clear responsibilities and for the topic to be anchored at senior management level. Respect for human rights and compliance with environmental standards are an integral part of our sustainability strategy, the implementation and ongoing development of which are the responsibility of the Chairman of the Board of Management.

At operational level, an interdisciplinary team ensures that we uphold our due diligence obligations. It is tasked with developing and implementing measures aimed at avoiding or minimizing human rights risks and environmental risks, and with putting a stop to any violations of obligations in these areas.

The DEUTZ Board of Management is kept informed about the implementation of our due diligence obligations – including the results of the risk analyses – on an ad hoc basis, but at least once a year, as is the Supervisory Board in its capacity as the body responsible for monitoring the Company's activities.

## **7. Reporting**

The development of our activities relating to human rights and the environment should be understood as an ongoing process. Organizational, legal, and societal factors are constantly changing, as is the risk situation for our business and for our suppliers. We therefore regularly conduct risk analyses and continually review the preventive and

remedial measures we have taken to ensure that they remain relevant, appropriate, and effective. In line with the aforementioned risk analyses and reviews, we update this declaration of principles on an ad hoc basis, but at least annually, and publish it on our website. We will also publish the completed LkSG checklist of the German Federal Office for Economic Affairs and Export Control (BAFA) on our website by the statutory deadlines.

Besides the reporting required in accordance with section 10 LkSG, our annual report is a key means of sharing information. It provides comprehensive information on how we fulfill our environmental, social, and corporate responsibilities in our business and beyond. Our annual reports can be found in the investor relations section of our website.

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