

## REPORT OF THE SUPERVISORY BOARD

### CLOSE COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE BOARD OF MANAGEMENT

In 2013, the Supervisory Board of DEUTZ AG continued its ongoing monitoring of the management of the business in accordance with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code and provided advice to the Board of Management on key decisions. The Supervisory Board was directly involved in all material decisions taken by the Board of Management. In particular the Board of Management cooperated closely with the Supervisory Board on the Company's corporate strategy.

Four regular Supervisory Board meetings, as well as one extraordinary meeting, were held in 2013. A constitutive meeting of the Supervisory Board was also held following the election of the shareholder representatives to the Supervisory Board by the Annual General Meeting on 30 April 2013. There was one member of the Supervisory Board absent at each of the regular meetings on 14 March, 13 June and 10 December 2013, and two members were absent from the extraordinary meeting on 14 February 2013, but all had sent their apologies. At all other meetings during 2013, all the members of the Supervisory Board were present in person.

At each of the meetings of the Supervisory Board, the Board of Management reported on the general economic, market and competitive environment for DEUTZ AG, presented a business update and sales report including detailed information on the actual performance of the business over the immediately preceding period, submitted an up-to-date risk report, provided information on key operational issues and offered an overview of the results forecast for the year as a whole. These reports were made on the basis of the key performance indicators already submitted in the Company's written monthly reports. These key performance indicators included new orders, orders on hand, revenue, unit sales, EBIT, research and development expenditure, capital expenditure, working capital and headcount data, in each case compared against the prior-year figures and budget. Reports from the Human Resources and Audit Committees presented by their chairperson were also a regular item on the agenda of the ordinary meetings of the Supervisory Board.

### FOCUS OF SUPERVISORY BOARD DELIBERATIONS

Our deliberations and discussions in the year under review focused mainly on the current business position and risk situation of DEUTZ AG as well as on the operational and strategic development of the business. Particular attention was paid to our existing

joint ventures, especially those in China, and the plan to establish a further Chinese joint venture together with Volvo, which would be for the production of four to eight-litre engines and would be majority owned by DEUTZ. The Board of Management reported on these matters on a regular basis. At our meetings on 14 March and 26 September 2013, we authorized the Board of Management to sign the joint venture agreement and apply for the business licence for the new Chinese joint venture with Volvo; this business licence was granted on 21 November 2013. The Supervisory Board received and discussed reports from the Board of Management about optimising the structure of our global operations at two meetings in 2013. During the course of the strategy discussion it was agreed that the strategic and operational goals of the Company should be more closely integrated.

Other key decisions concerned the 2014 budget, the medium-term planning up to 2018 and the approval of capital expenditure. As is the case every year, we also adopted resolutions concerning the achievement of targets by the Board of Management – and consequently its variable remuneration for the previous year – as well as the setting of its targets for the current year. Besides defining the Board of Management's targets for the current financial year, we also set medium-term targets for the Board of Management for the first time.

The Board of Management ensured that it provided the Supervisory Board with comprehensive, regular and timely information at all times. Between meetings, the Board of Management informed the members of the Supervisory Board in writing about all important events. In addition, the chairman of the Supervisory Board and the chairman of the Board of Management remained in close and regular contact to discuss all important transactions, imminent decisions and optimisation measures. All the decisions that the Supervisory Board was required to take in accordance with the law and Statutes were taken on the basis of the reports and draft resolutions submitted by the Board of Management and, where necessary, following preparation by the relevant committees of the Supervisory Board.

### PERSONNEL

The Supervisory Board had appointed Mr Michael Wellenzohn as an additional member of the Board of Management on 12 December 2012, a post that he took up on 1 March 2013. Since then, the Company's Board of Management has comprised three people: Dr Helmut Leube, Dr Margarete Haase and Mr Michael Wellenzohn.

Following preparatory work by the Human Resources Committee, the Supervisory Board reappointed Dr Margarete Haase as a member of the Board of Management and as Human Resources Director for the period 1 April 2014 to 30 April 2018.



#### CORPORATE GOVERNANCE: DECLARATION OF CONFORMITY WITH TWO EXCEPTIONS; SUPERVISORY BOARD REMUNERATION; EFFICIENCY AUDIT

The Supervisory Board held an in-depth discussion of the German Corporate Governance Code as amended on 15 May 2012 and 13 May 2013 and, together with the Board of Management, issued a declaration of conformity pursuant to section 161 of the German Stock Corporation Act (AktG). This declaration includes just a two variances from the code and since 11 December 2013 has been available in the “Investors/Corporate Governance” section of the Company’s website at [www.deutz.com](http://www.deutz.com), where it can be downloaded.

The 2013 Annual General Meeting of DEUTZ AG increased the fixed annual remuneration and attendance fees for Supervisory Board members. The previous dividend dependent component of the remuneration was abolished. As a result, it was possible to eliminate the deviation from the recommendation in the German Corporate Governance Code that any performance-based remuneration for Supervisory Board members be oriented towards the sustainable growth of the company. By deciding to abolish variable remuneration for members of the Supervisory Board, DEUTZ AG is also following a general trend in German business.

As it had in previous years, the Supervisory Board examined the efficiency of its work in 2013 by carrying out a survey. The results of this survey, which nine of the twelve Supervisory Board members completed, were presented at the Supervisory Board meeting on 26 September 2013 where they were discussed at length. The Supervisory Board’s overall finding was that it fulfilled its legal obligations and generally operated efficiently.

#### MATTERS HANDLED EFFICIENTLY BY FOUR COMMITTEES

The Supervisory Board has created four committees to enable it to perform its duties effectively. These committees prepare various topics and resolutions for the full Supervisory Board. Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 114 et seq. of this annual report.

The Human Resources Committee makes preparations to enable the Supervisory Board to decide about the following matters: the appointment of members of the Board of Management; the content, conclusion and amendment of employment contracts for members of the Board of Management appointed by the Supervisory Board, including the remuneration specified in the employment contracts; all issues arising between members of the Board of Management and the Company in this connection. The committee met four times in the year under review when it focused on preparations for the reappointment of Dr Haase as mentioned above (under the heading Personnel) and on resolutions related to the achievement of the Board of Management’s targets for 2012 and to the setting of Board of Management targets, including medium-term targets, for 2013.

The work of the Audit Committee in the year under review focused on assessment of the single-entity and consolidated financial statements for 2012 and the corresponding auditors' reports, the condensed consolidated financial statements for the six months to 30 June 2013 and their review by the auditors, the interim reports for the periods ended 31 March and 30 September 2013 and the discussion of the audit engagement for the year ended 31 December 2013. Other important topics discussed by the Audit Committee included risk management, compliance, the internal control system, strategic planning, key performance indicators and the development of equity investment structures. The committee also dealt with the invitation to tender for the audit of the consolidated annual financial statements and the review of the interim financial statements. The Audit Committee met on five occasions in 2013. The auditors attended three meetings of this committee.

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

Following an amendment to the relevant section of the rules of procedure for the Supervisory Board, the Nominations Committee now consists of four (previously three) Supervisory Board members elected by the Annual General Meeting. It is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The Nominations Committee met seven times in 2013 when it primarily dealt with the proposal of candidates for the election of shareholder representatives on the Supervisory Board at the Annual General Meeting on 30 April 2013, the remuneration of the Company's Supervisory Board members and a successor for Dr Bussolati, who stepped down from the Supervisory Board with effect from 31 December 2013.

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

## SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS AUDITED IN DETAIL AND APPROVED

The single-entity annual financial statements of DEUTZ AG prepared by the Board of Management in accordance with the German Commercial Code (HGB), the consolidated annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the combined management report for DEUTZ AG and the DEUTZ Group were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, the auditors appointed by the Annual General Meeting on 30 April 2013. The auditors issued unqualified opinions.

The single-entity annual financial statements of DEUTZ AG, the consolidated annual financial statements, the combined management report, the Board of Management's proposal for the appropriation of profit and the auditors' reports were made available to all members of the Supervisory Board and were examined by the Supervisory Board. The auditors explained their audit findings in detail to the Audit Committee meeting held on 28 February 2014 and to the Supervisory Board meeting held on 13 March 2014 and answered any supplementary questions raised.

The Supervisory Board approved the findings of the auditors' reports on DEUTZ AG and the DEUTZ Group. The conclusive findings of the Supervisory Board's own audit have not led to any reservations about either the single-entity annual financial statements or the consolidated annual financial statements, and the Supervisory Board has therefore approved them. The annual financial statements have thus been adopted.

The Supervisory Board also approved the Board of Management's proposal to use the accumulated income reported for the 2013 financial year to pay a dividend of €0.07 per dividend-bearing share.

## COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

New elections for the shareholder representatives on the Supervisory Board were held at the Annual General Meeting on 30 April 2013 as scheduled. Three members were re-elected: Dr Lodovico Bussolati, Michael Haupt and Lars-Göran Moberg. Three new members were also elected: Ms Eva Persson, Mr Göran Gummesson and Mr Hans-Georg Härter.

The employee representatives on the Supervisory Board had already been elected by the DEUTZ AG workforce on 19 March 2013. Four members were re-elected: Dr Witich Roßmann, Werner Scherer, Dr Herbert Vossel and Egbert Zieher. Two new members were also elected: Ms Sabine Beutert and Mr Dietmar Paust.

At the end of the Annual General Meeting of DEUTZ AG on 30 April 2013, the shareholder representatives Ms Sofia Frändberg, Mr Torbjörn Holmström and Dr Helmut Lerchner and the employee representatives Ms Caterina Messina and Mr Karl-Heinz Müller stood down from the Supervisory Board.

At its constitutive meeting on 30 April 2013, the Supervisory Board re-elected Mr Lars-Göran Moberg as its chairman and Mr Werner Scherer as its deputy chairman.

Only minor changes were made to the composition of the Supervisory Board committees at the constitutive Supervisory Board meeting. Mr Härter joined the Human Resources Committee in place of Mr Haupt and was elected as the fourth member of the Nominations Committee. On the Audit Committee, Ms Beutert replaced Mr Müller, who had stood down from the Supervisory Board.

Following Dr Bussolati's resignation from the Supervisory Board of DEUTZ AG with effect from 31 December 2013, the local court in Cologne appointed Mr Herbert Kauffmann to the Supervisory Board with effect from 7 January 2014 at the request of the Board of Management and as recommended by the Nominations Committee.

The Supervisory Board would like to thank all of the people who stood down from the Supervisory Board in 2013, some of whom had been members for many years, for their outstanding work and valuable contribution.

## CONFLICTS OF INTEREST; INDEPENDENCE OF SUPERVISORY BOARD MEMBERS

Because of their functions in the Volvo Group, the Supervisory Board members Sofia Frändberg and Torbjörn Holmström were subject to a conflict of interest until 30 April 2013, when they stood down from the Supervisory Board of DEUTZ AG. The same applied to Dr Lodovico Bussolati until he stepped down from the Supervisory Board with effect from 31 December 2013 because of his functions in companies in the SAME DEUTZ-FAHR Group, which are also major customers of DEUTZ AG. The chairman of the Supervisory Board reviewed each individual case to establish whether this conflict of interest restricted/restricts the opportunity for the involvement of Ms Frändberg, Mr Holmström and/or Dr Bussolati in the work of the Supervisory Board. Ms Frändberg and Mr Holmström did not participate in the Supervisory Board's discussion and adoption of a resolution concerning the new Chinese joint venture with Volvo on 14 March 2013.

The current members of the Supervisory Board of DEUTZ AG are all considered independent within the meaning of item 5.4.2 sentence 2 of the German Corporate Governance Code.

The Supervisory Board would like to express its thanks and appreciation to all employees of DEUTZ AG in Germany and abroad, to the elected employee representatives and to the Board of Management for their valuable efforts and the considerable dedication they showed in 2013

Cologne, March 2014

The Supervisory Board



Lars-Göran Moberg  
Chairman