

# Remuneration system for the members of the Board of Management of DEUTZ AG

## Remuneration System of the Board of Management

### 1. Principles of the Remuneration System and Its Contribution to the Corporate Strategy and Long-Term Development of the Business

It is the intention of DEUTZ AG to become the global leader for the production of innovative drive systems and a pioneer for the climate-neutral off-highway mobility of the future. At the same time, DEUTZ AG is pursuing profitable and sustainable growth. The cornerstones of this growth strategy include a multi-technology approach to expanding the drive technology portfolio, with a focus on electric drives and alternative drive solutions, the promotion of digitalization in the high-margin service business, regional growth initiatives with an emphasis on China, and process improvements for lasting competitiveness. In order to reach its commercial goals in balance with its social, entrepreneurial, and ecological responsibilities, DEUTZ AG has committed to a range of non-financial targets as part of its sustainability strategy.

The overarching corporate strategy represents the frame of reference for the board remuneration system of DEUTZ AG. Its design was chosen to create incentives for the committed pursuit of the strategy and to promote the lasting and sustainably successful development of the business.

Short-term variable remuneration is offered to support the intended profitable growth and the strategic alignment for the climate-neutral mobility of the future with financial, strategic, and non-financial (environmental, social, and governance, or ESG) criteria. The focus of the long-term variable remuneration approach lies on a value-driven development of DEUTZ AG both in terms of the capital invested and in terms of capital market performance. With the Management Board members participating in both the short-term and the long-term success of the business (with greater weighting for the latter), there are active incentives for promoting the long-term, sustainable development of DEUTZ AG. Since the Board of Management is constituted as a collective body, the remuneration criteria are equally applicable to all members.

The remuneration system emphasizes the alignment between the company's ambitions in terms of sustainable performance and profitable growth and the interests of its shareholders, since the absolute and relative share price and dividends are essential criteria for the calculation of the long-term variable component, which has a greater weight in the remuneration system overall.

The remuneration for each Management Board member is intended to be in line with current market practice and commensurate with the size, complexity, and commercial situation of the company and the duties and contributions of each Management Board member. Excellence and out-performance of defined targets are appropriately reflected in their remuneration, just as any failure to attain targets will lead to a decrease in remuneration (pay for performance).

The remuneration system agreed by the Supervisory Board on 1 January 2021 is in accordance with the requirements of the German Stock Corporation Act in the version of the Act Implementing the Second Shareholders' Rights Directive (ARUG II) and the recommendations of the German Corporate Governance Code (GCGC) in the form published in the German Federal Gazette (Bundesanzeiger) of 20 March 2020.

The new remuneration system applies to all current members of the Management Board as of 1 January 2021 and all new or renewed service agreements or appointments of Management Board members.

## 2. Procedures for Defining, Revising, and Reviewing the Remuneration System

The personnel committee proposes recommendations for the board remuneration system, based amongst others on the recommendations and proposals of the German Corporate Governance Code in its current version. The Supervisory Board reviews the committee's recommendations and decides on the system for board remuneration. The Supervisory Board can draw on the assistance of an external consultant for this purpose, with due attention to the consultant's independence during his or her selection and appointment.

The Supervisory Board presents the agreed remuneration system to the annual general meeting. Should the annual general meeting reject the proposed remuneration system, the Supervisory Board will present a revised system latest at the next regular annual general meeting.

The Supervisory Board defines the specific target remuneration and the performance criteria for any variable components for the coming business year in accordance with the remuneration system presented to the annual general meeting.

The Supervisory Board reviews the remuneration system and the remuneration levels of Management Board members regularly to ensure its alignment with current practice in the market and competition. The personnel committee supports the Supervisory Board in this by providing preparatory remarks and recommendations.

As part of the review, it is reviewed whether the remuneration is in line with customary practice in both horizontal (comparing the board remuneration with other organizations) and vertical direction (relations within DEUTZ AG itself). For the horizontal comparison, a peer group of organizations is composed that are comparable to DEUTZ AG in terms of their location, industry, and size. Within DEUTZ AG, the upper management team and the wider workforce are included in a vertical relative comparison and comparison over time. The upper management team for this purpose is defined as the leading executives (leitende Angestellte) in Germany, and the wider workforce as the employees which are not part of the leading executives (nicht-leitende Angestellte) in Germany.

Should the regular reviews of the remuneration system reveal any needs for adjustments, the Supervisory Board discusses and determines the relevant changes. If any of these changes are of a substantial nature, the remuneration system is presented for approval by the next regular annual general meeting, but latest every four years.

The current regulations for resolving any conflicts of interest of the Supervisory Board's rules of procedure also apply to the definition, review, and revision of the remuneration system.

### 3. Design of the Remuneration System

#### 3.1. The Components of the Remuneration System in Brief

The annual remuneration of Management Board members of DEUTZ AG is the sum of several fixed and variable components. The fixed component is independent of actual performance and includes three elements: the basic salary, additional benefits, and pension provisions. The Management Board members' variable remuneration is, by contrast, dependent on their performance and includes two elements: a bonus calculated for a one-year period (Short-Term Incentive – STI) and virtual performance shares calculated for a four-year period to have a long-term incentivizing effect (Long-Term Incentive – LTI).

Components		Composition
Fixed Component		
Basic salary		<ul style="list-style-type: none"> <li>Fixed salary paid in monthly instalments</li> </ul>
Additional benefits		<ul style="list-style-type: none"> <li>Typically company car and insurance coverage</li> </ul>
Pension provisions		<ul style="list-style-type: none"> <li>Annual contribution into a pension fund</li> </ul>
Variable Component		
Bonus	Plan type	<ul style="list-style-type: none"> <li>Performance bonus</li> </ul>
	Criteria	<ul style="list-style-type: none"> <li>30 % Revenue</li> <li>30 % EBIT</li> <li>25 % strategy target</li> <li>15 % sustainability target</li> </ul>
	Cap	<ul style="list-style-type: none"> <li>150 % of the target amount</li> </ul>
	Period	<ul style="list-style-type: none"> <li>One year</li> </ul>
Virtual performance shares	Plan type	<ul style="list-style-type: none"> <li>Virtual performance share plan</li> </ul>
	Criteria	<ul style="list-style-type: none"> <li>50 % relative Total Shareholder Return compared to the DAXsubsector All Industrial Machinery</li> <li>50 % Return on Capital Employed (ROCE)</li> </ul>
	Cap	<ul style="list-style-type: none"> <li>180 % of the target amount</li> </ul>
	Period	<ul style="list-style-type: none"> <li>Four years</li> </ul>
Other		
Malus / Clawback		<ul style="list-style-type: none"> <li>Optional partial or complete reduction or clawback of variable remuneration in cases of serious compliance violations</li> </ul>
Special allowance		<ul style="list-style-type: none"> <li>Optional award of a special allowance</li> <li>Both, limited to half the annual basic salary and capped by the maximum total remuneration</li> </ul>
Maximum total remuneration		<ul style="list-style-type: none"> <li>Caps for the total remuneration assigned for each business year in acc. with Sect 87a Subsect. 1 Sent. 2 Item 1 German Stock Corporation Act:</li> <li>Chairman: €2,800,000</li> <li>Ordinary member of the Management Board: €1,900,000 (each)</li> </ul>
Severance cap		<ul style="list-style-type: none"> <li>Severance payments capped at the annual target remuneration for a maximum of two years or max. the remainder of the original agreement</li> </ul>

Fixed Component		Variable Component	
Basic salary	Additional benefits and pension provisions	Bonus (STI)	Virtual performance shares (LTI)
One-year		Multi-year	

The total target remuneration is the sum of all fixed and variable remuneration components, calculating the STI and LTI at the target level, i.e. at 100% target attainment. The variable component is greater than the fixed component, and the multi-annual variable component (LTI) always exceeds the annual variable component (STI). The individual components constitute the total target remuneration according to the following ratios:

Components	Share in the Total Target Remuneration
Basic salary	~ 40 % - 45 %
Additional benefits	~ 2 %
Pension provisions	~ 0 % - 10 %
Short-Term Incentive	~ 20 % - 25 %
Long-Term Incentive	~ 25 % - 30 %

### 3.2. Fixed Component

The fixed component is not dependent on performance and includes a basic salary as well as additional benefits and pension contributions.

#### 3.2.1. Basic Salary

The basic salary is paid in monthly fixed instalments.

#### 3.2.2. Additional Benefits

Every member of the Management Board receives certain material and additional benefits, including primarily the provision of a company car for professional and personal use, with optional provision of a driver, accident insurance coverage, and the provision of D&O insurance. The Supervisory Board has the option to award new Management Board members additional temporary onboarding benefits in individual cases, such as the reimbursement of relocation costs.

### 3.2.3. Pension Provisions

DEUTZ AG pays an annual contribution into a pension fund for the pension provisions of its Management Board members. Upon retirement, the Management Board members are solely entitled to the committed capital. They are not entitled to any other pension or surviving dependants' pension.

Criteria	Provisions
Pension plan	Defined contribution pension plan
Retirement age	Regular retirement age: 65; earliest age at retirement: 62 (if the retiree is also entitled to a state pension upon retirement)
Interest	The interest rate depends on the surplus participation of the insurer. No guaranteed interest rate applies.
Payment options	The company's capital commitment can be disbursed either as a single lump sum or a life annuity.
Invalidity / Death	Death before retirement: The value of the policy is paid out, plus any applicable participation in valuation reserves.  Death after retirement (only for life annuities): Payment of ten times of annual pension guaranteed upon retirement, deducting all amounts already paid out since retirement.

### 3.3. Variable Remuneration

The variable remuneration component includes a bonus calculated for a one-year period and virtual performance shares calculated for a four-year period. Both are designed to incentivize progress with the corporate strategy and, as a result, the company's lasting and sustainable growth and development. To do so, the Supervisory Board defines ambitious operational and strategic targets each year for certain performance criteria, relating to the operational management of the business and its corporate strategy. The actual amount of variable remuneration for each Management Board member is dependent on their attainment of these defined targets.

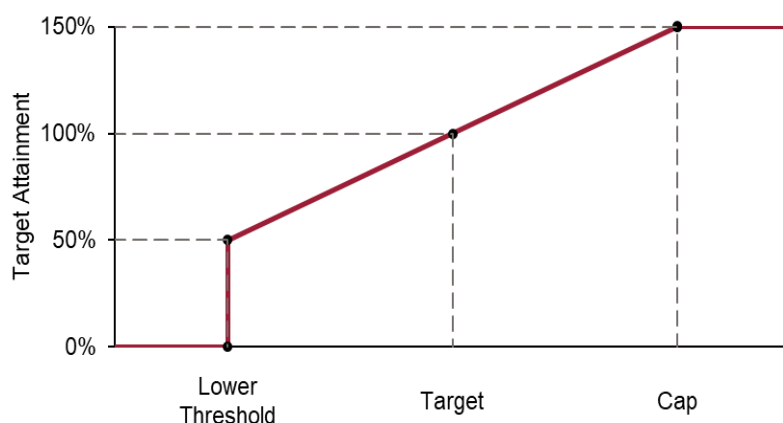
### 3.3.1. Bonus (STI)

The bonus is intended to aid the pursuit of the corporate strategy by recognizing and rewarding the operational implementation of the strategy in any given business year. The criteria for assessing performance are consolidated revenue (30%), consolidated earnings before interest and taxes (consolidated EBIT) (30%), a strategy target (25%), and a sustainability target (15%). The consolidated revenue and consolidated EBIT targets reflect the growth strategy espoused by DEUTZ AG as incentives for profitable growth. The strategic targets relate directly to the execution of specific strategic initiatives, whereas the sustainability target reflects the company's commitment to its social and ecological responsibility and relates back to the group strategy as an expression of its constituent sustainability strategy.

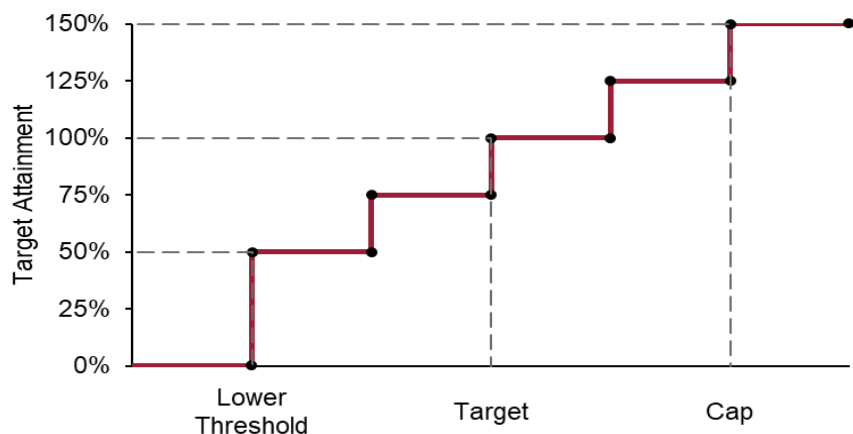
The concrete performance criteria for the strategy and sustainability targets are defined annually by the Supervisory Board to incentive the most relevant strategic initiatives. Only a single criterion is defined in each case. The following types of targets can apply for the strategy target: internationalization, cooperation, value add, alternative drive systems, production network, complexity reduction. For the sustainability target, the Supervisory Board can select a criterion from the following areas: environmental and climate goals, alternative drive systems, corporate governance, health and safety, diversity, HR development, and supply chain.

Before the start of each business year, challenging threshold, target, and cap values are defined for each criterion, derived from the operational or strategic planning process, respectively. Any performance below the threshold is considered 0% target attainment, and the bonus can be dropped in its entirety. Target attainment is capped at a level of 150%.

The bonus curves for the financial and other quantitatively measurable strategy and sustainability targets can be visualized as follows:

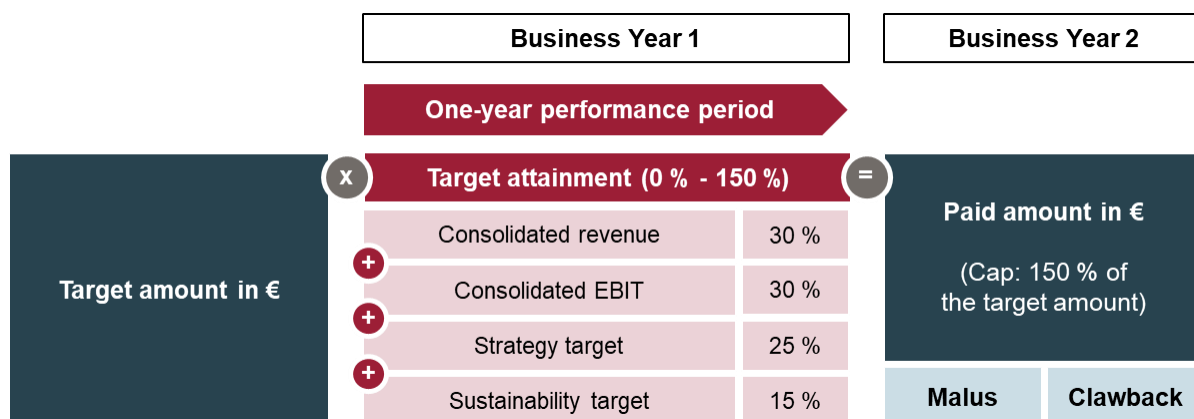


The Supervisory Board is committed to defining the strategy and sustainability targets in such quantitative form. If this is not meaningfully possible for material reasons, the Supervisory Board can also define qualitative targets, with a stepped bonus curve as follows:



The specific criteria and any qualitative considerations for the strategy and sustainability targets and the threshold, target, and cap values for the STI criteria are published in the remuneration report for the business year, unless this transparency would have an unfavourable effect on the market position of DEUTZ AG.

The bonus amount for a business year is defined by the target attainment level for the defined criteria. This is determined after the Supervisory Board's acceptance of the relevant year's consolidated annual report, comparing the actual as-is performance with the defined targets for the quantitative performance criteria and assessing target attainment for qualitative targets based on the Supervisory Board's best judgment and discretion. The resulting target attainment levels are multiplied with the weighting of each criterion and then added to define the total target attainment. This is multiplied in turn with the target amount to calculate the actually disbursed amount (capped at 150% of the target amount).





In accordance with the recommendations of G. 11 GCGC, the Supervisory Board has the option of taking exceptional events and developments into appropriate consideration in the calculation of the STI in exceptional cases and with reasons given (e.g. the acquisition of another enterprise or divestment of parts of an enterprise). Generally, unfavourable market conditions are expressly not considered exceptional events for this purpose. Should the Supervisory Board decide to make use of this option and adjust the target attainment calculation for the STI, the adjustment is duly reported in the subsequent remuneration report.

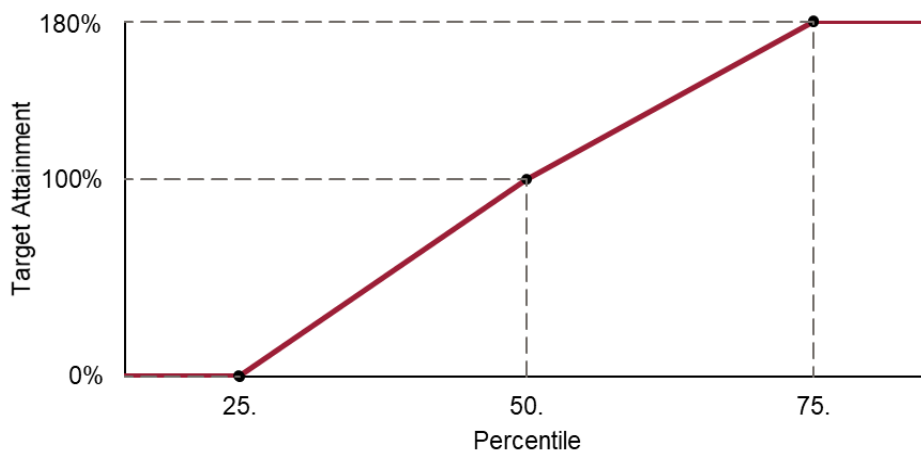
### 3.3.2. Virtual Performance Shares (LTI)

The share price-driven LTI intends to promote progress with the corporate strategy by rewarding the long-term growth of the value of DEUTZ AG. Since the growth strategy is inherently sustained by the available capital, the value-oriented use of the capital is of substantial importance; at the same time, our shareholders expect to participate in the company's successes not only in the form of share price gains, but also in the form of a regular and appropriate dividend. This is reflected in the LTI's reference to the absolute and relative share price and dividend, which creates an even closer alignment of the interests of shareholders and the Management Board members. It generally creates an incentive for the lasting and sustained growth of the company's value.

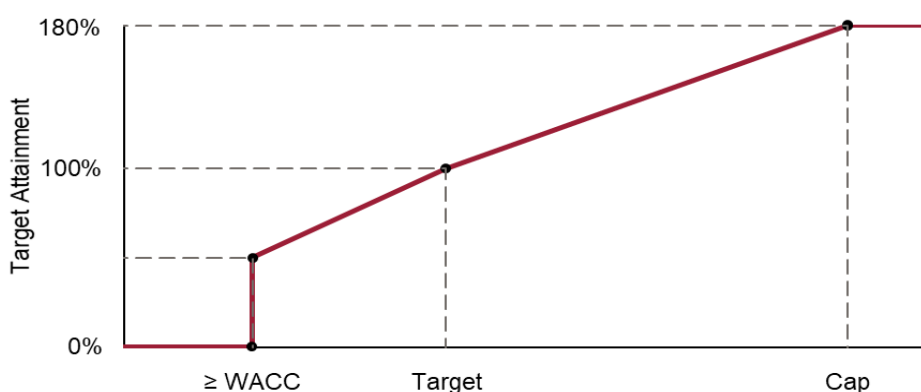
The LTI is awarded in the form of annual tranches of virtual performance shares (VPS), thus, it is share-based. At the start of the performance period, the target amount of the LTI is divided by the average share price of DEUTZ AG (arithmetic mean of the closing XETRA prices for the last 60 trading days before the performance period) to define the number of conditionally assigned virtual shares (virtual performance shares). This number can increase or decrease according to the performance of the (additively linked) criteria relative Total Shareholder Return (TSR) and Return on Capital Employed (ROCE – defined acc. to the Deutz Annual Report 2020). The number of VPS can also drop to zero should the set targets be missed by a substantial margin.

The relative TSR, weighted at 50%, compares the TSR performance of DEUTZ AG with the TSR performance of the DAXsubsector All Industrial Machinery (the TSR peer group). TSR performance is calculated as the ratio of share price performance plus paid dividends at the end vs. the beginning of the performance period. It is calculated for all companies in the defined TSR peer group and DEUTZ AG at the end of each performance period. The resulting individual values are ranked by percentiles, with the 0th percentile rank representing the lowest TSR performance and the 100th percentile the highest TSR performance.

Target attainment for the relative TSR is defined by the percentile ranking of DEUTZ AG at the end of the performance period: Up to the 25th percentile, target attainment is defined as 0%, at the 50th percentile, 100%, and from the 75th percentile, 180%, with a linear progression interpolated for all percentiles between these values.



The ROCE represents the second LTI criterion, weighted at 50%. Before the start of each business year, the Supervisory Board defines challenging threshold, target, and cap values for the ROCE in the new period, valid for the entire four-year term. The target is defined annually based on the expected long-term return on the capital employed. The ROCE threshold is set at the weighted average cost of capital (WACC) of DEUTZ AG. ROCE values below the WACC imply a target attainment of 0%. This means that the Management Board members are only entitled to this incentive component if the returns on the capital employed exceed the cost.

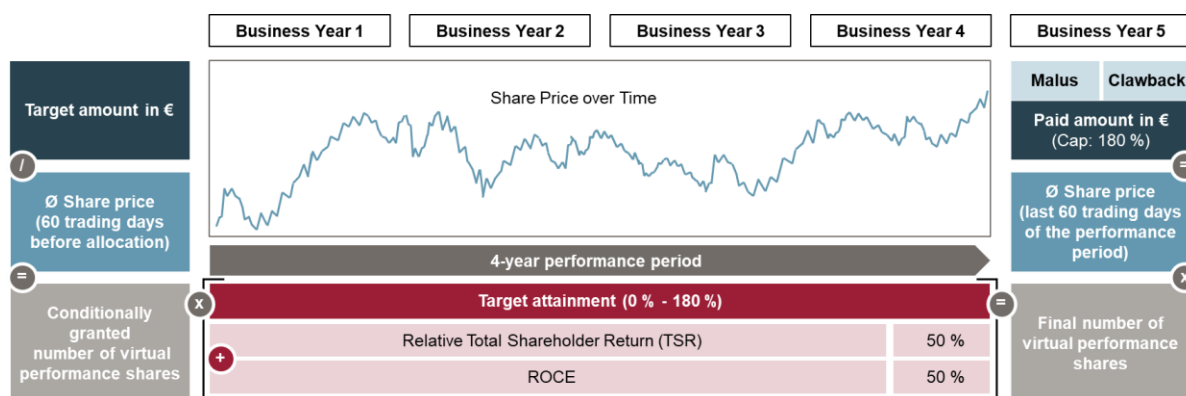


The specific threshold, target, and cap values for the ROCE are published in the remuneration report after the completion of each tranche, unless this would have an unfavourable effect for the market position of DEUTZ AG.

After the Supervisory Board's acceptance of the consolidated annual report for the last business year of a performance period, the target attainment level is calculated for the ROCE by comparing the actual mean ROCE with the defined target.

The resulting target attainment for the relative TSR and ROCE are multiplied with the weighting for the performance criterion and added to define the total target attainment.

The final number of virtual performance shares is calculated at the end of the performance period by multiplying the originally assigned number of conditional VPS with the total target attainment. This final number is then multiplied with the average share price at the end of the performance period (arithmetic mean for the XETRA closing price of the last 60 trading days before the end of the performance period) to define the actual paid amount (limited to 180% of the target amount).



In accordance with the recommendation of G. 11 GCGC, the Supervisory Board has the option to consider exceptional developments in the calculation of the LTI as well. Again, generally unfavourable market conditions are not considered exceptional developments. Should the Supervisory Board decide to make use of this option and adjust the calculation for the LTI, the adjustments are reported in the next remuneration report.

### 3.4. Other Provisions

#### 3.4.1. Malus and Clawback

The bonus and virtual performance shares are subject to certain malus and clawback conditions. In the case of serious violations of applicable laws or legal or contractual obligations by a member of the Management Board, which are to be explained in detail by the Company, the Supervisory Board has the power to withhold all or parts of as yet unpaid bonuses (malus) or to reclaim already disbursed bonuses (clawback). The Supervisory Board's decision is based on best judgment and discretion. It shall not affect any of the company's claims to damages in acc. with Sect 93 Subsect. 2 German Stock Corporation Act.

### 3.4.2. Special Allowances

The Supervisory Board can award special allowances according to its best judgment and discretion in exceptional cases defined and justified by the board. No such special allowances were awarded to Management Board members over the last ten years. A twofold cap applies: The special allowance is limited to half the annual basic salary of the recipient, and it forms part of the maximum remuneration acc. to Sect. 87a Subsect. 1 Sent. 2 Item 1 German Stock Corporation Act (for details cf. 3.4.3.). Should a special allowance be awarded to a member of the Management Board, its rationale and amount are stated and explained in the remuneration report for the business year in question.

### 3.4.3. Maximum Remuneration

The remuneration for Management Board members is limited by two factors. First, the variable components are capped (bonus: 150 %, virtual performance shares: 180 %); second, the Supervisory Board has defined a maximum remuneration level in acc. with Sect. 87a Subsect. 1 Sent. 2 Item 1 German Stock Corporation Act, which constitutes a hard-upper limit for the maximum remuneration awarded in any business year. This maximum remuneration includes the basic salary, additional benefits, pension provisions, payments of the STI and LTI, and any applicable special allowances. The maximum remuneration for the Chairman of the Board of Management is set at €2,800,000 and at €1,900,000 for each ordinary member of the Management Board.

## 4. Legal Transactions concerning Board Remuneration

### 4.1. Duration of Service Agreements

Service agreements with Management Board members are limited to the term of their appointment and renewed for each reappointment. The typical term upon first appointment is three years and a maximum of five years for each reappointment.

The service agreements with Management Board members do not define any ordinary termination process for either side. This does not affect the right of either party to terminate the service agreement without notice for good cause.

### 4.2. Provisions upon Termination of the Contract

Should the service agreement or appointment of a member of the Management Board be terminated early without good cause, the member of the Management Board will receive a severance payment calculated at the amount of the remuneration presumed due to him or her for the remainder of the original agreement, but highest for a period of two years (severance cap).

#### 4.3. Change of Control

No separate provisions apply in the case of an early termination of Management Board appointments or periods of service due to a change of control. In such cases, the provisions of 4.2 of this remuneration system apply.

#### 4.4. Entry or Exit within a Business Year

Should a Management Board member enter or exit his or her appointment during an ongoing business year, the remuneration is calculated pro rata temporis.

In the case of the (early) termination of an appointment, invalidity or retirement, any virtual performance shares for active LTI tranches not yet paid out remain at the agreed amount and will be disbursed according to the defined regulations after the target attainment has been calculated. No early disbursement is possible. Claims to virtual performance shares from active tranches are forfeited if the service agreement of the Management Board member is terminated by the company for good cause, if the Management Board member resigns his or her appointment, or if the Management Board member lets the service agreement lapse with its regular termination and does not accept an offer of reappointment on equivalent or better terms and conditions.

#### 4.5. Remuneration for Supervisory Board Appointments within and outside of DEUTZ AG

Any remuneration paid to members of the Management Board for supervisory appointments at a DEUTZ AG subsidiary or company in which DEUTZ AG holds a material stake is set off against the Management Board member's regular remuneration.

Up to half of any remuneration for supervisory appointments outside of DEUTZ AG can be set off against the Management Board member's regular remuneration, at the Supervisory Board's best judgment and discretion.

### 5. Temporary Deviations from the Remuneration System

A deviation from the established remuneration system for Management Board members is possible in accordance with the applicable regulations of Sect. 87a Subsect. 2 Sent. 2 German Stock Corporation Act if exceptional circumstances apply that require such a deviation for the long-term good of the company. Any such deviation requires a formal decision by the Supervisory Board with a statement and transparent explanation of the reasons for this deviation. The specific components of the remuneration system affected by the deviation and the need for the deviation are also to be published and explained in the shareholders' remuneration statement.