

# To Our Shareholders

## Corporate Governance

Corporate management and supervision at MAN is focused on ensuring sustained value creation and an appropriate profit in line with the principles of the social market economy.

Corporate governance is shaped by the applicable laws, in particular the provisions of German stock corporation law, by our Articles of Association and internal regulations, and by internationally and nationally recognized standards of good and responsible governance. The German Corporate Governance Code ("the Code") presents the statutory regulations for the governance of German stock corporations that apply to MAN and provides recommendations and suggestions for corporate governance in accordance with recognized standards. These were applicable to MAN as an Aktiengesellschaft (German stock corporation) until May 19, 2009, and continued to apply to MAN SE as a European company from the date on which MAN AG's change of legal form to a Societas Europaea ("SE") became effective after the approval of the Annual General Meeting on April 3, 2009, and entry in the commercial register.

These rules are supplemented by MAN's "Industrial Governance" management principle, which defines the responsibilities for Group management by MAN SE and the responsibilities of the divisions. They can be found on our website at [www.man.eu/MAN/en/Investor\\_Relations/Strategie/](http://www.man.eu/MAN/en/Investor_Relations/Strategie/). The compliance and ethical guidelines that apply to the MAN Group are described in our Code of Conduct that we revised this year (available at [www.man.eu/MAN/en/Unternehmen/Management/Code\\_of\\_Conduct/](http://www.man.eu/MAN/en/Unternehmen/Management/Code_of_Conduct/)). The Group's management principles are formalized in Group policies.

### Corporate Governance at MAN<sup>1</sup>

Both MAN's Executive Board and Supervisory Board have examined the Group's corporate governance system in detail. They are aware that good and transparent corporate governance that complies with both national and international standards is of central importance to ensure responsible, long-term management. The governing bodies focused in detail on compliance with the German Corporate Governance Code, and especially the new requirements of the Code as amended on May 26, 2010.

### Declaration of Conformity

In December 2010, the Executive and Supervisory Boards issued the following Declaration of Conformity:

*"MAN SE complied with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with its Declarations of Conformity of February 2010 and December 2009 respectively and will comply with the recommendations of the German Corporate Governance Code (the Code) as amended on May 26, 2010, with the restriction that follows.*

*The recommendation under section 5.4.5 of the Code as amended on May 26, 2010 will not be followed without restriction for the period from when it takes effect on July 2, 2010, until the end of ThyssenKrupp AG's Annual General Meeting on January 21, 2011.*

*The temporary departure from the recommendation under section 5.4.5 is due to Dr.-Ing. Ekkehard D. Schulz, Chairman of the Executive Board of ThyssenKrupp AG, serving on the supervisory board of three other listed companies (MAN SE, Bayer AG, and RWE AG) as well as one non-listed company with comparable requirements (AXA Konzern AG).*

*However, Dr. Schulz will be leaving the Executive Board of ThyssenKrupp AG at the end of ThyssenKrupp AG's Annual General Meeting on January 21, 2011.*

*In view of the many years that Dr. Schulz has spent as a member of MAN SE's Supervisory Board as well as the end of his service on ThyssenKrupp AG's Executive Board in the very near future, a temporary departure from the Code recommendation under section 5.4.5 seems appropriate."*

<sup>1</sup> Also the corporate governance report of the Executive and Supervisory Boards in accordance with section 3.10 of the German Corporate Governance Code as amended on May 26, 2010.

The Executive and Supervisory Boards of Renk Aktiengesellschaft, a listed subsidiary based in Augsburg, have also issued a declaration of conformity. This is published on the company's website at [www.renk.eu](http://www.renk.eu).

We comment in more detail in the following on the key recommendations and suggestions contained in the Code, with particular reference to the changes. We also explain the departure from one of the Code's recommendations that is disclosed in our Declaration of Conformity.

#### **Promoting transparency and shareholders' rights**

The information we provide through our website ([www.man.eu/MAN/en/Investor\\_Relations](http://www.man.eu/MAN/en/Investor_Relations)), financial publications, and capital market conferences enables our German and international shareholders as well as other interested parties to build an accurate and up-to-date picture of our Company and gain an insight into our corporate governance practices. We also publish without delay annual reports, interim reports, and a financial calendar showing all upcoming events on our website (see section 6.3 of the Code), as well as the annual document we are required to prepare under section 10 of the *Wertpapierprospektgesetz* (WpPG—German Securities Prospectus Act), summarizing all the relevant information disclosed by the Company during the past calendar year.

In keeping with the principle of equal treatment, we are committed to providing all our Company's shareholders with equal access to information.

#### **Annual General Meeting**

The Annual General Meeting is the platform where MAN shareholders can exercise their voting rights, obtain information, and engage in a dialog with the Executive and Supervisory Boards.

In organizing and conducting its Annual General Meeting, MAN SE aims to provide all shareholders with prompt, comprehensive, and effective information both before and during the event. The invitation to the Annual General Meeting is published in the *elektronischer Bundesanzeiger* (the electronic Federal Gazette) and is accessible to our shareholders and all other interested parties via the MAN website, together with all reports and documents relating to the Annual General Meeting. In addition, we e-mail the documents to interested shareholders and other parties if we have their consent to do so, as well as posting them on our website for download.

If shareholders are unable to attend the Annual General Meeting, they may either authorize a bank, shareholders' association, or other person to represent them, or authorize an MAN employee, either in writing or by electronic means, to exercise their voting rights by proxy.

To enable all shareholders to follow the Annual General Meeting, the entire event is broadcast live on the Internet.

#### **Executive Board and Supervisory Board**

MAN SE has a two-tier structure comprising an Executive Board and a Supervisory Board. Both governing bodies work closely together to the benefit of the Company and seek to achieve a sustained increase in enterprise value for its shareholders.

The Executive Board, which currently comprises four members, is responsible for performing managerial and operational tasks. Its responsibilities extend in particular to the Group's strategic focus, which it agrees with the Supervisory Board. The Executive Board is also responsible for target-driven, active management and the central financing of the Group, the development and deployment of managers, and the preparation of quarterly and annual financial statements. In addition, it ensures compliance with legislation, official regulations, and internal policies.

The various tasks are allocated to the individual Executive Board functions in accordance with the list of responsibilities. The full Executive Board addresses all key decisions and measures; the Executive Board's Rules of Procedure define the decisions and measures that require the approval of the full Executive Board. Meetings of the full Executive Board are held at least once a month and additionally as needed. The Executive Board reports to the Supervisory Board. It consults the Supervisory Board on decisions of fundamental importance. The Executive Board also ensures open and transparent corporate communications.

The Supervisory Board has an oversight and advisory role. Important transactions require the Supervisory Board's approval. MAN SE's Supervisory Board features equal representation, comprising eight Supervisory Board representatives elected by the Annual General Meeting and eight employee representatives appointed during negotiations with the Special Negotiating Body. Please refer to the Report of the Supervisory Board and the Notes to the Annual Financial Statements for further information on the composition of the Supervisory Board of MAN SE, its committees and duties, and its cooperation with the Executive Board.

No member of the Supervisory Board exercised or exercises a directorship or similar function or performs advisory tasks for important competitors of MAN. More specifically, as explained in the Declaration of Conformity of December 2009, no member exercises a directorship or similar function at MAN's important competitor Scania. Rather, this is only the case at its majority shareholder, Volkswagen AG (where Prof. Dr. Piëch is Chairman of the Supervisory Board, and Rupert Stadler is a member of the Board of Management), and at Volkswagen AG's subsidiary Audi AG (where Rupert Stadler is Chief Executive Officer and Ulf Berkenhagen has been a member of the Board of Management since April 1, 2010), which MAN does not consider to be important competitors.

The Government Commission on the German Corporate Governance Code resolved various amendments to the Code on May 26, 2010. Its recommendations aim in particular to increase the proportion of women in managerial positions and on committees at listed companies and to reflect the criterion of diversity.

The Executive Board defined the goals required to achieve this at its meeting on October 26, 2010, and resolved an extensive package of measures.

MAN's Supervisory Board will also take diversity into account in the composition of the Executive Board and in particular aim for appropriate consideration of women.

The Supervisory Board resolved the following with regard to the composition of the Supervisory Board at its meeting on November 12, 2010:

In view of the purpose and size of the Company and the proportion of its international business activities, MAN SE's Supervisory Board aims to take into account the following factors in respect of its composition:

- awarding at least two Supervisory Board positions—one of which on the shareholder side—to persons who especially embody the criterion of internationality;
- awarding at least two Supervisory Board positions on the shareholder side to persons who neither exercise an advisory, directorship, or similar function at customers, suppliers, lenders, or other business partners of the MAN Group, nor have a business or personal relationship with MAN SE or its Executive Board that gives rise to a conflict of interest;
- awarding at least two Supervisory Board positions to women, at least one of which is on the shareholder side.

Proposals for election made by the Supervisory Board to the responsible electoral bodies should take the above-mentioned goals into account. Under these goals, persons who have reached the age of 70 at the time of an election should not, as a rule, be considered in proposals for election.

The composition of MAN's Supervisory Board was, at least temporarily, not compliant with the Code from July 2, 2010 (effective date of the Code as amended on May 26, 2010).

Dr.-Ing Ekkehard D. Schulz, Chairman of the Executive Board of ThyssenKrupp AG, serves on the supervisory board of three other listed companies (MAN SE, Bayer AG, and RWE AG) as well as one non-listed company with comparable requirements (AXA Konzern AG).

However, Dr. Schulz left the Executive Board of ThyssenKrupp AG at the end of ThyssenKrupp's Annual General Meeting on January 21, 2011.

In view of the many years that Dr. Schulz has spent as a member of MAN's Supervisory Board (and on the supervisory bodies of the other above-mentioned companies) as well as the end of his service on ThyssenKrupp AG's Executive Board in the very near future, a temporary departure from the Code recommendation under section 5.4.5 seemed appropriate.

MAN also complied with the Code's recommendation that no more than two former members of the Executive Board be members of the Supervisory Board; there is currently one former member of the Executive Board on the Supervisory Board.

No elections to the Supervisory Board have been held since the latest version of the Code as amended on May 26, 2010 came into effect.

No conflicts of interest were reported by members of either the Executive or Supervisory Board during the reporting period. MAN complied with the age limit set by the Supervisory Board for members of the Executive Board, which stipulates retirement from office at the age of 62 with the option for an extension up to a maximum age of 65 years. It also took into consideration the standard age limit of 70 set for members of the Supervisory Board. Only the Chairman of the Supervisory Board and an additional Supervisory Board member have exceeded 70 years of age.

There were no advisory or other contracts for services or work between the Company and its board members during the reporting period. The Supervisory Board approved the secondary activities of Executive Board members only to the extent that these involved serving on other companies' supervisory boards and management activities at Group companies. The Company has taken out D&O (directors' and officers' liability insurance) coverage. This insurance was adjusted to reflect the requirements of the *Gesetz zur Angemessenheit der Vorstandsvergütung* (VorstAG—German Act on the Appropriateness of Executive Board Remuneration) dated July 31, 2009, and of the German Corporate Governance Code.

### Compliance/risk management

Effective January 1, 2010, MAN SE's Executive Board established a new Compliance function as part of its responsibility for compliance defined by the German Corporate Governance Code. This function, which reports to the Chief Compliance Officer (CCO), is responsible for developing and implementing a uniform Group integrity and compliance program, focusing on fighting corruption, infringements of antitrust law, and on data protection. The Compliance function consists of MAN SE's central Corporate Compliance Office and the compliance organization at the subgroups. The central compliance measures developed by the CCO are implemented locally and in a uniform manner by the compliance staff at the subgroups worldwide. All compliance organization staff are subordinate to the CCO, who regularly reports to MAN SE's Executive Board and to the Audit Committee of the Supervisory Board.

The key compliance measures developed and implemented by the Compliance function in the reporting period include the following:

- A Group-wide compliance risk assessment was conducted in the reporting period. The aim of this was to identify potential compliance risks affecting objective business models in the Group. The results of the compliance risk assessment led to the establishment of the compliance organization, the compliance program tailored to MAN's requirements, and other measures to prevent compliance risks, among other things.
- The existing Code of Conduct was fundamentally revised and new policies to prevent corruption-related risks were issued (policy on handling gifts, hospitality, and invitations to events; policy on engaging business partners; policy on handling donations and sponsoring measures).

- To better assess and as far as possible to eliminate corruption-related risks in dealings with business partners who perform sales support activities (in particular consultants and agents), the Compliance function together with sales staff developed a web-based application, the Business Partner Approval Tool, that allows MAN to systematically verify the integrity of such business partners.
- In February 2010, the Company established its Compliance Helpdesk, which all employees can contact with compliance-relevant questions. In addition, the Compliance function holds compliance awareness training in the form of classroom sessions for all employees who may be exposed to compliance risks in their day-to-day work. The training sessions focus on providing basic knowledge on anticorruption and infringements of antitrust law.
- Compliance violations are not tolerated at MAN. Reports of possible violations are investigated in detail and punished according to the penalties permitted under labor law. The Compliance function uses the findings from the clarification of compliance violations to analyze any deficiencies in the compliance program, to adapt the program accordingly, and to continuously improve it.

A detailed description of MAN's compliance organization and the compliance measures implemented in the reporting period can be found in the Group Management Report.

Risks resulting from compliance violations and other business risks were assessed under the risk management system and addressed in detail by the Executive Board and Supervisory Board, and in particular by the Audit Committee. Please refer to the description of MAN's risk management system and the risk report contained in the Management Report.

#### **Directors' dealings (reportable securities transactions)**

Section 15a of the *Wertpapierhandelsgesetz* (WpHG—German Securities Trading Act) requires individuals with management tasks and certain related parties to report dealings in MAN shares and related financial instruments to the issuer and the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin—German Federal Financial Supervisory Authority). No transactions were reported in fiscal 2010. Any disclosures are published on the Company's website at [www.man.eu/MAN/en/Investor\\_Relations/Corporate\\_Governance/Meldepflichtige\\_Wertpapiergeschaefte/](http://www.man.eu/MAN/en/Investor_Relations/Corporate_Governance/Meldepflichtige_Wertpapiergeschaefte/).

According to the reports received, the Executive and Supervisory Board members' direct and indirect holdings of shares and derivatives on shares do not exceed 1% of the shares issued by the Company, either individually or in total.

#### **Financial reporting**

The year-end consolidated financial statements of the MAN Group are prepared by the Executive Board on the basis of the International Financial Reporting Standards (IFRSs), while the single-entity financial statements of MAN SE are prepared in accordance with the *Handelsgesetzbuch* (HGB—German Commercial Code). The financial statements are examined and approved by the Supervisory Board. All deadlines for the publication of financial statements and interim reports were met during the reporting period. In accordance with the new recommendation in section 7.1.2 of the Code as amended in 2008, the Audit Committee discusses MAN's half-yearly and quarterly financial reports with the Executive Board prior to their issue.

### Audit of the financial statements

In the reporting period, the Supervisory Board proposed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("PwC"), Munich, as auditors of the financial statements; the Annual General Meeting endorsed its proposal. PwC provided MAN's Audit Committee with confirmation of its independence. It was also agreed that the Chairman of the Audit Committee would be immediately informed of any grounds for disqualifying the auditors or questioning their impartiality that might occur during the audit, unless such grounds could be immediately eliminated.

## Remuneration report for fiscal year 2010<sup>2</sup>

### Executive Board remuneration in 2010

The full Supervisory Board assumed responsibility for determining the total remuneration of the individual Executive Board members when the *Gesetz zur Angemessenheit der Vorstandsvergütung* (VorstAG—German Act on the Appropriateness of Executive Board Remuneration) came into force on July 31, 2009. Supervisory Board resolutions to determine the total remuneration of individual Executive Board members are prepared and proposed by the Presiding Committee of MAN SE's Supervisory Board. The full Supervisory Board also regularly discusses the structure of the Executive Board remuneration system based on the Presiding Committee's proposals. In addition, it resolves and regularly reviews a remuneration system in accordance with the recommendation in the German Corporate Governance Code (section 4.2.2). The Supervisory Board adopted resolutions on the current remuneration system at its meeting on February 12, 2010, and in writing on the measurement of the bonus in June 2010.

The Supervisory Board's objective and duty is to set remuneration at an appropriate amount. The criteria for doing so include in particular the tasks of the respective Executive Board member, his personal performance, the economic situation, the performance and outlook of the Company and how customary the remuneration is when measured against its peer group, as well as the remuneration structure that applies to other areas of MAN.

### Remuneration structure and components

The remuneration of Executive Board members comprises fixed salary payments and non-cash benefits, pension and other benefit contributions, and performance-related components. The variable performance-related components comprise components linked to business performance and long-term incentive components that entail an element of risk.

- The fixed remuneration is paid as a monthly salary. In addition, Executive Board members receive non-cash benefits that primarily comprise the provision of a company car and driver for business trips, and the payment of insurance premiums. The fixed remuneration is reviewed on a regular basis and adjusted where necessary, taking into account general salary trends and the area of responsibility of the individual Executive Board member.
- The performance-related variable remuneration (bonus) is based on two factors that each have a 50% weighting.

One half of the bonus is calculated using the MAN Group's return on capital employed (ROCE) less the weighted average cost of capital (WACC). This factor is based on an average of the relevant and the following fiscal year. The degree to which the target has been achieved is determined by comparing this average figure with the agreed target.

The other half of the bonus is determined using return on equity (before tax). The actual figure for the relevant fiscal year is compared with the agreed target to establish the degree to which the target has been achieved. 50% of the resulting bonus portion is paid out in shares with a four-year vesting period in accordance with the MAN Stock Program (see below).

The amount of the bonus is restricted and is only paid out if the Company achieves a return on sales (ROS) of more than 2%.

- Since 2005, the component linked to long-term business performance has been awarded through the MAN Stock Program. Under this program, Executive Board members receive cash payments of 50% of their fixed remuneration, which are taxable annually. Half of the payment must be invested in MAN SE common shares. These are purchased and held in safekeeping centrally by MAN SE on behalf of and for the account of Executive Board members. Purchased shares may be freely disposed of after a

<sup>2</sup> The remuneration report is part of the Group Management Report in accordance with section 315 of the HGB.

vesting period of four years. During the vesting period, the shares may not be sold, pledged, or hedged. If an Executive Board member retires or departs from the MAN Group, the vesting period ends no later than one year after the date of departure.

- The Executive Board members' benefit entitlements comprise retirement, disability, and survivors' benefits. Entitlements to such benefits are accumulated under a defined contribution system, with the value of benefits dependent upon the performance of certain fund indices. Each year, MAN SE contributes an amount equal to 20% of an Executive Board member's fixed remuneration and the bonus paid to that member in the fiscal year into an MAN fund. Executive Board members may elect to make additional contributions out of their gross salary. Contributions and the returns thereon are held in individual capital accounts. The rate of return on the accumulated capital account balance depends upon the performance of selected capital market indices, which are weighted according to an Executive Board member's age. Contributions, the returns thereon, and any additional returns earned by the fund together constitute the total amount of capital available. At retirement, the beneficiary may take the balance of the capital account, or at a minimum the total amount of the contributions, as a lump-sum payment, in installments, or as an annuity. In the event of disability or death, the beneficiary is paid the accumulated account balance, or at a minimum four times the fixed annual remuneration and bonus.

#### **Executive Board members' remuneration in 2010**

The remuneration awarded to active members of the Executive Board for their services in fiscal 2010 totaled €10,549 thousand plus €656 thousand for pensions (previous year: €4,270 thousand plus €1,437 thousand for pensions). Please see note 34 in the "Notes to the Consolidated Financial Statements" for details of the Executive Board members' individual remuneration, broken down into fixed, performance-related, and long-term incentive components.

Additionally, a total of €7,142 thousand in severance payments was made in fiscal 2010 to members who left the Executive Board in fiscal 2009. Appropriate provisions were recognized for these in fiscal 2009. These payments are also described in detail in the above-mentioned note in the "Notes to the Consolidated Financial Statements."

#### **Special contract provisions**

Under a provision that has been in effect since 2010, an Executive Board member receives his fixed remuneration, bonus, insurance premiums, and contributions to the pension system until the end of his normal term of office, but for no more than two years, in the event of the early termination of his contract without good cause and at the instigation of the Company. Income from his activities elsewhere is offset and the basis for calculating the amount of the contributions to the pension system reduced accordingly. MAN uses an Executive Board member's bonus for the past fiscal year and his expected bonus for the current fiscal year as a basis for calculating the bonus that constitutes his severance payment on leaving his position.

If a contract is terminated at the instigation of an Executive Board member (a member may do so, without having to cite his reasons, by giving 18 months' notice), remuneration is awarded only up until the end of the period of notice.

There are no special change-of-control provisions in place.

### Supervisory Board remuneration

The structure and amount of the Supervisory Board's remuneration are determined by the Annual General Meeting and governed by Article 12 of the Articles of Association. It is based on the tasks and responsibilities of the Supervisory Board members as well as on the Group's economic performance.

The annual remuneration comprises the following components:

- basic (fixed) remuneration of €35,000;
- variable remuneration (bonus). This is based on actual earnings per share as reported in the consolidated financial statements. The variable remuneration is €175 for every €0.01 by which earnings per share exceeds €0.50. It is capped at twice the basic remuneration.

Additional remuneration is paid to the chairman and deputy chairman of the Supervisory Board as well as to the chairmen and members of the Supervisory Board committees. The Supervisory Board chairman receives double and his deputy one and a half times the fixed and variable remuneration. Members of the Audit Committee, or of the Presiding Committee of the Supervisory Board, each receive an additional 50% and the chairman of the respective committee an additional 100% of the basic remuneration.

Since the amendment to the Articles of Association resolved at the Annual General Meeting on April 1, 2010, the members of the Supervisory Board have additionally received an attendance fee of €500 in each case for meetings of the Supervisory Board or of Supervisory Board committees at which they are present.

In addition, members of the Supervisory Board are reimbursed their expenses.

Remuneration and expenses reimbursed that are subject to value added tax are paid gross of value added tax if this is invoiced separately.

Supervisory Board remuneration does not include a component linked to long-term business performance, as it is almost impossible to measure the Supervisory Board members' individual contribution to the Company's long-term performance. The Company does not, therefore, follow the suggestion in section 5.4.6 of the Code.

In line with the view taken in some of the legal literature, the remuneration for the first Supervisory Board (of an SE) is subject to the approval of the Annual General Meeting, which will be sought as a precautionary measure at the 2011 Annual General Meeting when the Supervisory Board's first term of office ends as defined by the Articles of Association.

### Supervisory Board members' remuneration in 2010

The remuneration payable to the members of the Supervisory Board in 2010 totaled €2,183 thousand (previous year: €941 thousand). In addition, members of MAN SE's Supervisory Board received remuneration totaling €68 thousand (previous year: €39 thousand) for serving on supervisory boards at Group companies in fiscal 2010. Please see note 35 in the "Notes to the Consolidated Financial Statements" for a breakdown of the individual remuneration of the Supervisory Board members in 2010.

### Additional information

In the reporting period, Supervisory Board members did not receive any additional remuneration or awards for personal services, particularly advisory or intermediary services.

Former Supervisory Board members who left the Board prior to January 1, 2010, do not receive any remuneration.