

# Group Management Report

## Risk Report and Outlook

### Risk management

Operating a business entails constant exposure to risks. The MAN Group defines risk as the danger that events, decisions, or actions will prevent the Company from achieving defined goals and/or successfully implementing strategies. The Company consciously assumes risks with a view to exploiting market opportunities if it expects this to contribute sufficiently to increasing its enterprise value. This requires an effective risk management system tailored to the Group's business needs.

The MAN Group's risk management activities are an integral part of its corporate management and business processes. Strategic corporate planning, internal reporting, the internal control system, and the compliance system are all core elements of the risk management system. One of the objectives of strategic corporate planning is to promptly identify and assess long-term opportunities and risks so that appropriate structural measures can be taken. The internal reporting system is set up at all levels of the Group to promptly provide up-to-date and relevant information on the status of significant risks and the efficacy of risk mitigation measures, among other things. Building on risk identification activities, the internal control system focuses on monitoring and managing risks in a targeted manner. The task of the compliance system is to assist management in promptly identifying and responding to compliance-related risks. The system is based on a compliance organization that reflects the structure of the MAN Group, various processes, and steering committees to enforce the compliance requirements. For further information on the structure and workings of the compliance organization, please see the section entitled "Compliance system."

Responsibility for setting up and maintaining an appropriate and focused risk early recognition system lies with the MAN Group's Executive Board, which has itself defined the scope and focus of the risk management system and the internal control system to the Company's specific requirements. The Industrial Governance management system provides for decentralized decision-making processes within the MAN Group and therefore an appropriately organized risk management system. Consequently, management of each division is responsible for ensuring that all Group companies are integrated into the risk management system and internal control system.

The MAN Group's policy for risk management and the internal control system is applicable throughout the Group and contains binding guidelines on identifying, analyzing, assessing, controlling, and monitoring significant risks and opportunities as well as the internal controls within the Group. The principles and processes set out in the policy ensure a common understanding of the risk management and internal control system. Functions and committees for the risk management process and the internal control system have been put in place both at Group level and in the divisions. Therefore, in the Group's material companies, there are coordinators for risks and controls who are responsible for managing the continuous development and improvement of the risk management process and the internal control system. Cross-functional risk boards have been set up in the individual Group divisions. As part of the risk management system, these are tasked with assessing the risks reported by the functions, identifying additional risks, and introducing and monitoring measures to minimize the risks. Risks are initially classified as short-term, i.e., up to one year, or as long-term, i.e., up to three years. They are assessed in terms of their probability of occurrence and impact on a gross and net basis, with the net assessment factoring in any measures that mitigate the risk in question. The projected operating profit of the relevant organizational unit is used to evaluate the materiality of such a net assessment. Uniformly defined risk fields allow the Group to promptly identify and manage any concentration of risk. In addition to risks, opportunities, material weaknesses in the internal control system, and measures introduced by the companies are identified

continuously. At its meetings, the Group Risk Board analyzes and evaluates this risk information from the divisions on a quarterly basis with the Executive Board, the Corporate Audit function, and the Controlling function. Where necessary, further measures to prevent or mitigate risk are decided upon and kept in place so as to continuously develop and improve the existing risk management system and the internal control system.

In recent years, the MAN Group has structured its existing internal control system and documented it uniformly throughout the Group in accordance with the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to allow it to systematically assess the effectiveness of its internal controls. The documentation covers all standard business processes as well as any additionally identified business-specific risks and all necessary controls relating to the material MAN Group companies. The control system is regularly reviewed with regard to the completeness, appropriate design, and effectiveness of the existing controls with the aim of ensuring compliance at all levels of the MAN Group with existing regulations aimed at reducing process-related and organizational risks. The internal controls focus on limiting risks of material misstatement in the financial reporting, risks arising from noncompliance with regulatory standards or acts of deception, and on minimizing operational/economic risks (e.g., threats to assets as a result of unauthorized operational decisions or obligations entered into without authorization). The control environment and the cross-process controls that form the framework of an effective and operational internal control system are documented at a central, overall level and regularly assessed to determine whether they are appropriate and functioning effectively. The risk managers on the Group Risk Board report to the Executive Board on the effectiveness of the internal controls and any control weaknesses identified. The control structures are represented in a database solution, thereby supporting the system's uniform documentation throughout the Group. This database shows the controls relating to all the material companies in the MAN Group. The relevance of companies is reviewed annually according to the materiality of the risk situation on the basis of qualitative and quantitative criteria.

The Corporate Audit function regularly monitors the effective functioning of the MAN Group's risk management system as part of its activities, and initiates appropriate measures if necessary. When conducting its risk-oriented review, the Corporate Audit function also takes into account information on risks recorded and examines key risk factors if appropriate. The external auditors audit the ability of the risk early recognition system to identify at an early stage any developments that could endanger the Company's continuing existence. The effectiveness of the internal control system at process level is reviewed at least once a year by suitable internal testers and by means of spot checks performed by the Corporate Audit function. At the regular meetings of its Audit Committee, the Supervisory Board is briefed on the MAN Group's risk position and on material weaknesses in the Group's internal control system. Nevertheless, even if an appropriate and effective system is set up, there can be no absolute guarantee that risks will be identified and controlled.

## Accounting-related risk management system and internal control system

As a rule, the risk management system and internal control system within it also comprise the accounting-related processes as well as all risks and controls in respect of accounting. This relates to all parts of the risk management system and internal control system that could have a material effect on the consolidated financial statements.

The goal of the risk management system in respect of the accounting processes is to identify and assess risks that could run counter to the objective of preparing consolidated financial statements that comply with the relevant rules. Identified risks must be assessed in terms of their effect on the consolidated financial statements, including by using external specialists if necessary. In this context, the internal control system aims to provide sufficient assurance that, despite the risks identified, the Group accounting process is reliable and complies with International Financial Reporting Standards, the *Handelsgesetzbuch* (HGB—German Commercial Code), and other accounting-related rules and laws by implementing corresponding controls.

Both the risk management system and the internal control system extend to all companies that are significant for the consolidated financial statements, including the processes relevant for preparing the financial statements. The accounting-related controls focus in particular on the risks of material misstatement in the financial reporting. The materiality of risks is assessed on the basis of the likelihood of occurrence and the financial effect on revenue, EBIT, or total assets.

The key elements of risk diversification and control in accounting are the clear allocation of responsibilities and controls in the preparation of financial statements, transparent requirements in the form of guidelines for accounting and preparing financial

statements, appropriate rules governing access to the IT systems that are relevant for the financial statements, and the clear assignment of responsibilities when using external specialists. The dual control principle and the separation of functions are also important control principles in the accounting process.

The risks identified and corresponding measures taken are updated in the quarterly reports to the risk board and forwarded to the Executive Board. The effectiveness of internal controls in respect of accounting is assessed at least once a year, primarily during the preparation of the financial statements. In addition to the Corporate Audit function, the external auditors assess the accounting-related processes as part of their audit activities.

As part of their audit of the financial statements, the auditors are also obliged to report to the Supervisory Board's Audit Committee on material accounting-related risks or control weaknesses and any other material weaknesses in the risk management system and internal control system that they identified during their audit activities.

## Opportunities and risks

The significant opportunities and risks that may have a considerable impact on the net assets, financial position, and results of operations are outlined below in line with the structure of the MAN Group's risk management system. This classifies risks into five risk fields: markets, products, processes, employees, and finances.

### Markets

Both for 2011 and over the medium to long term, the MAN Group sees opportunities for all divisions to achieve profitable growth in the transportation and energy markets. At the present time, no significant risk to the MAN Group is anticipated. The underlying global economic trends will continue, such as sustained economic growth, a greater international division of labor and resulting increase in global transport routes and volumes, capital spending by the oil and gas industry, and a need to innovate due to trends in global climate policy. Through its strategy of significantly strengthening its position in the current and future growth markets of the BRIC countries, the MAN Group is increasing its sales potential and thus countering regional economic risks. In China, for example, MAN is able to participate in the strong growth in heavy trucks through its partnership with Sinotruk. In Brazil, it is able to benefit from the country's economic growth by virtue of its position as market leader for trucks over 5 t. But although the growth trend is expected to be positive, in an environment of continuing uncertainty there are also downside risks to global economic activity. Due to overall higher demand for oil and other commodities, for example, there is a risk that prices on procurement markets will rise, impacting negatively on margins if MAN is unable to pass on any price increases it incurs in its purchasing activities via product prices. Protectionist efforts may also have an adverse effect on expected growth. MAN continuously and carefully monitors and assesses the political, legal, social, and financial environment so that the resulting opportunities and risks can be promptly incorporated into strategic and operational decisions.

### Products

As a leading supplier of advanced technology, it is the MAN Group's mission to develop technologically superior and highly cost-effective products that are of outstanding quality when launched on the market. Abandoning this mission would pose an unjustifiable risk to the Group's market position. However, the rollout of new products involves conceptual and market risks, which are managed through a careful strategic planning process that analyzes trends in the market and business environment. The resulting product plans are used to manage our extensive research and development activities. For many years now, research and development expenses have been in the region of 3% to 4% of revenue. The launch of Euro V emission standard-compliant engines at MAN Truck & Bus (at MAN Latin America starting in 2012) and the introduction at MAN Diesel & Turbo of the diesel combined cycle technology for stationary power plants, which boosts efficiency by 10% to 15%, clearly show that these risks can be overcome.

Products that have already been launched pose risks in relation to the quality expected by customers. Substandard quality may result in manufacturer's guarantee, statutory warranty, and ex gratia repair costs, and lead in the long term to the loss of market share or lower product margins. In extreme cases, product liability and compensation claims may be made. The MAN Group starts to identify and limit these risks right from the product gestation stage. A standardized product gestation process ensures that only properly functioning and reliable product concepts move on to the next stage of development. Suppliers and their products are required to undergo a strict approval process in order to safeguard the Company's high quality standards. After production startup, defined quality assurance measures within the production process ensure that manufacturing defects are promptly identified and eliminated. During use, any defective products are collected, analyzed, and repaired in collaboration with the service operations.

Long-term customer contracts give rise to additional risks: changes in the political or economic conditions in a particular market may result in additional expenditure on major projects. At MAN Truck & Bus, buyback obligations pose a risk if the amount obtainable from the future sale of a used vehicle in the market changes significantly versus expectations at the time the contract was entered into. In the project business, risks arise as a result of guarantees or guarantee obligations. However, these are often covered by third-party guarantees, or in the case of prepayment guarantees by prepayments received from customers. Defaults are minimized by carrying out intensive checks before and after extending guarantees. The high-growth turnkey business at MAN Diesel & Turbo, where MAN functions as a lead contractor for the delivery of turnkey diesel power plants, entails particular risks in relation to timely and due and proper performance by subcontractors and therefore for MAN Diesel & Turbo itself. The company combats this risk through appropriate controlling during all phases of the project.

### Processes

The MAN Group considers the continual optimization of its development, purchasing, production, sales, and administration processes to be a central and ongoing task. It therefore operates a preventive and continuous supplier monitoring system to identify potential delivery delays or supplier defaults at an early stage and to mitigate their effects. Inadequate processes in these areas result in excessive costs and, by tying up too much capital, in financing risks. Moreover, overstocked inventories regularly result in an increased risk of loss through shrinkage or scrapping, while excessively high receivables increase the risk of default. MAN works vigorously and systematically to reduce capital employed by improving the underlying processes.

Specific risks arise during major projects, including contracting deficiencies, miscosting, post-contracting changes in economic and technical parameters, and poor performance on the part

of the consortium partners' subcontractors. The MAN Group minimizes these risks through comprehensive project and contract controlling. In the growing power plants market, for example, MAN Diesel & Turbo uses a systematic and comprehensive risk management system right from the bidding phase. Costings and risk assessments are constantly examined and adjusted throughout the project implementation phase. Regular project reviews are used to determine and monitor the necessary measures. In addition, major projects are assessed by MAN SE's Controlling and Finance functions and submitted to MAN SE's Executive Board for approval. Any approved and ongoing contracts that deviate significantly from plan are tracked by way of a special reporting system for critical contracts and submitted to MAN SE's Executive Board.

As in any modern enterprise, the MAN Group's business processes are to a large extent supported by information technology. Besides improving efficiency, this also gives rise to risks. Parts of the infrastructure may fail as a result of accidents, disasters, or technical faults, thereby impairing a wide variety of business processes or bringing them to a complete standstill. There is also the risk of unauthorized access, theft, or the destruction of business information and data. The resulting financial damage and loss of image may affect individual MAN companies or even the entire MAN Group.

To meet the four main requirements of information security, namely availability, integrity, confidentiality, and authenticity so as to mitigate and prevent risk, MAN uses the latest hardware and software technologies as well as effective IT organizational and control mechanisms to support business processes. By centralizing and outsourcing IT operations, systematically introducing IT service management processes in accordance with ITIL (IT Infrastructure Library (standard for the organization of IT processes)), and increasingly organizing information security in accordance with the internationally recognized standard ISO 27001, the MAN Group has significantly improved the transparency and reliability of the IT infrastructure compared with its IT operations up until mid-2009, which were mapped out purely internally.

The internal control system plays a key role. It is focused on ensuring compliance with the relevant regulations across all business processes and thus on helping to protect assets and reduce risks. With regard to financial reporting, the emphasis is on optimizing the process of preparing the financial statements to ensure the complete, timely, and correct processing of all transactions and business processes.

### Employees

The highly qualified specialists and managerial staff who set technological standards with MAN products are a critical factor in the MAN Group's success. The opportunities for the MAN Group lie in the skills, international focus, and innovativeness of the employees who develop continuously improved and forward-looking products, services, and processes. The risks include not being able to fill key positions to meet future requirements. Filling such positions requires a holistic approach to talent management that enables MAN to identify highly qualified junior employees. Through a variety of HR marketing activities, it has been able to recruit and retain outstanding specialists and managers. Participating in rankings helps position MAN as an attractive employer and therefore enables it to hire the specialists and managers it requires worldwide, while systematic succession planning supports it in its efforts to fill management positions from within its own ranks. As part of its internationalization strategy, the MAN Group will continue to concentrate on aspects such as intercultural skills in training its specialists and managerial staff.

### Finances

Because it operates worldwide, the MAN Group is exposed to financial market risks. These are managed through a combination of organizational measures and suitable financial instruments. The financing functions of the MAN Group and its operating companies are performed centrally by MAN SE.

For short-term financing requirements, the MAN Group must have access to sufficient liquidity reserves. Arrangements are based on a detailed financial plan prepared for the MAN Group at three levels. As part of the corporate planning process, the liquidity and financing position is projected over a three-year planning horizon. Quarterly forecasts contain rolling liquidity plans for the next four quarters. These are supplemented by more detailed three-month plans that estimate short-term liquidity requirements.

When investing any liquidity reserves, there is always a risk that invested funds may be lost as a result of a bank or securities issuer becoming insolvent. MAN therefore takes care to invest its liquidity reserves conservatively and to spread risks by distributing investments across several financial institutions and issuers. As far as possible, only reputable, prime-rated financial institutions (investment-grade institutions) are considered.

To manage currency and interest rate risk, MAN uses only marketable instruments, which are used to hedge existing underlying transactions and, to some extent, forecasted revenues. Derivatives and other hedging transactions are usually entered into via the Group's central Finance function and are subject to strict internal controls. If exchange controls prevent the central Finance function from entering into transactions, they are instead entered into in the name and for the account of the Group company in question.

Exchange rate movements can affect both prices for goods and services and profit margins. The MAN Group hedges all firm customer contracts, its own purchase orders, and other

transactions against currency risks. Hedging is also used for budgeted serial-production revenue and for highly probable customer projects. Despite these measures, there is still a risk that the amount and timing of revenue payments will deviate from budget.

An additional currency risk also relates to the changes exchange rates may cause to customers' purchasing power, which MAN does not hedge. In the short term, a reduction in the value of a currency may result in losses in the sales markets concerned. In the long term, MAN endeavors to offer products and services that are always competitive, irrespective of current exchange rates, by constantly improving its productivity and geographical diversification.

Adverse effects may also result from changes in interest rates. The risks associated with such changes are managed by entering into interest rate hedges. This applies in particular to the Group's customer financing arrangements, which are usually entered into at fixed rates of interest. MAN uses derivative and nonderivative financial instruments exclusively for risk management purposes. All hedging is aimed at reducing economic exposure to currency and interest rate risk to a minimum. For further information on the use of financial instruments, see note (30) in the "Notes to the Consolidated Financial Statements."

The manufacture of MAN's products requires substantial amounts of raw materials. Price trends on the commodity markets or price escalation clauses in supplier contracts may pose risks to operating profit. These risks are usually managed through long-term supplier contracts or price escalation clauses in customer contracts. If a customer contract does not provide for a price escalation clause, targeted commodity price hedging may be used.

Changes in the investment portfolio may give rise to significant strategic risks. Acquisitions, for example, may result in risks if the assumptions underlying the purchase price, such as assumptions regarding potential synergies, cannot be realized.

At the same time, divestment measures entail the risk that certain business activities cannot be sold as planned. For information on potential risks in connection with the Ferrostaal transaction, see the sections entitled "Divestments" and the "Notes to the Consolidated Financial Statements."

Acquisitions may also change the MAN Group's necessary financing structures, potentially increasing its financing costs or limiting its financial scope.

Counterparty and country risk are reduced through the careful selection of transactions and business partners, as well as through appropriate contractual and payment terms. Any remaining risks are classified according to the debtor's credit standing and largely transferred to banks by way of documentary payments (documentary credits) and guarantees received, or to insurance companies by way of non-payment insurance. Nevertheless, there are default and credit risks inherent in customer financing, leasing, and banking that cannot be hedged and which can only be limited by carrying out detailed credit checks in advance and through ongoing credit management. Guarantees are furnished centrally by MAN SE so as to ensure a uniform and restrictive policy. Particular importance is attached to formulating and performing the contract so as to minimize the possibility of an unjustified claim.

In order to reduce the financial risks inherent in defined benefit pension plans, and as a result of legal regulations abroad, the MAN Group's defined benefit obligations are largely funded through pension plan assets that are ring-fenced from its business assets. The pension plan assets are invested by external investment managers in accordance with conservative investment (prudent investor) policies and giving appropriate consideration to the cash flow structure of the pension obligations. The fair value of the pension plan assets is subject to standard fluctuations, particularly those resulting from changes in interest rates and equity prices. In this context, interest rate-related changes are partly compensated by an offsetting change in the present value of the pension obligations. Biometric risks, primarily life expectancy or permanent disability or death during active employment, must also be taken into account when measuring pension obligations.

For active employees in Germany, the trend of a regular increase in life expectancy was reflected by switching from annuities to capital payments. In the UK, all defined benefit pension plans have been closed to new members in recent years.

### Assessment of the Group's risk position

On the basis of the risk management system established by the MAN Group, the Executive Board has determined that, at the present time, there are no identifiable risks that could have a material and long-term adverse effect on the net assets, financial position, and results of operations of the MAN Group. The risk management system introduced by the Group and the related organizational measures allow the Executive Board to identify risks rapidly so as to initiate appropriate measures.

Risk management is an ongoing and continuous activity on the part of the Company, and of course something that is undergoing constant development. For MAN, this means continuing to optimize its risk management and internal control systems going forward and adapting them to changing conditions. Given the more positive yet partly still uncertain economic trend, activities in 2011 will continue to focus on financial, market, and product risk management.

## Litigation/legal proceedings

Please see "Divestments," "Events after the reporting period," and the "Notes to the Consolidated Financial Statements" for information relating to litigation/legal proceedings.

## Compliance

In the reporting period, MAN continued to implement the 5-point program to better combat corruption launched in July 2009 and to replace it by the establishment of a dedicated compliance organization and the introduction of effective compliance measures. The compliance program was developed especially for MAN, taking into account the Group's structure, specificities, and needs.

### Compliance organization

As of January 1, 2010, MAN established a new Compliance function whose tasks include combating corruption as well as preventing or identifying violations in the areas of antitrust law and data protection. The function is managed by the Chief Compliance Officer, who reports directly to the Chief Executive Officer of MAN SE and additionally to the Audit Committee of the Supervisory Board. The Compliance function currently comprises 30 staff and is being further expanded. 20 employees work in the Corporate Compliance Office that is based at MAN SE and is responsible for designing and enhancing MAN's compliance system as well as for Group-wide compliance issues. Ten staff provide compliance advice in the subgroups. Each subgroup therefore has a compliance officer, who is supported by compliance managers in various business units or sales regions. The compliance officers at the subgroups report directly to MAN SE's Chief Compliance Officer, and the compliance managers in turn report directly to the responsible compliance officer. In addition to providing an in-depth advisory function, the compliance staff at the subgroups are responsible for implementing the centrally defined compliance measures in the respective business units or sales regions worldwide. The

Compliance Steering Committee met a total of 14 times in the period under review. At these meetings, the Chief Compliance Officer informed MAN SE's full Executive Board and the heads of the other functions on the progress of the development of the compliance organization and the introduction of new compliance measures, and agreed additional steps.

### Compliance risk assessment

The Compliance function conducted a Group-wide compliance risk assessment in the first quarter of 2010. The aim of this was to identify potential compliance risks affecting the business models of the business units or sales regions in all subgroups. The results of the compliance risk assessment were used to determine the structure and scale of the compliance organization, the compliance program tailored to MAN's requirements, and other measures to prevent compliance risks, among other things.

### Code of Conduct and compliance policies

In the period under review, MAN issued a new Code of Conduct and compliance policies to specifically prevent compliance offences.

The new Code of Conduct replaces the Code of Conduct from 2006 and is aimed especially at MAN employees. It clearly defines MAN's corporate values and thus its aim to be reliable, innovative, dynamic, and open, in more detail and provides concrete and binding guidelines for situations where employees must take particular care to conduct themselves responsibly. It uses examples to describe how they may handle conflicts encountered in the course of day-to-day operations. The Code of Conduct is available in eleven languages and has been distributed to all employees in the Group. It is also available on the intranet and the Internet.

In May 2010, MAN issued a policy on handling gifts, hospitality, and invitations to events to ensure that such benefits are appropriate and are not used to influence business partners or authorities. This was followed in August 2010 by a policy on engaging business partners, which defines requirements for commissioning agents, representatives, consultants, or other business partners who perform sales support activities. Concrete process steps when validating business partners (using a web-based review application, see below), the structuring of agreements, the documentation of business relationships, and the payment of remuneration are designed to ensure that business partners do not use the remuneration paid by MAN for the purposes of corruption. Finally, MAN adopted a policy on handling donations and sponsoring measures in September 2010. All these policies apply directly to the entire Group.

### Compliance training

The Compliance function held on-site training sessions on compliance issues for over 4,000 staff worldwide in the reporting period. MAN kicked off these training measures in June 2010 with a day-long Compliance Summit for around 200 managers, which was attended by all the Executive Board members of MAN SE and the subgroups. Senior management was informed about the introduction and development of the compliance organization, its awareness of the issue of compliance was raised, and it was obliged to actively support the implementation of compliance throughout the Group. This was followed by a total of 166 compliance awareness training sessions lasting several hours each in Germany and abroad (Brazil, China, Denmark, France, Mexico, Norway, Poland, Switzerland, and South Africa) in which staff who are potentially exposed to compliance risks were introduced to MAN's compliance organization and given basic knowledge on combating corruption and on antitrust law. These compliance awareness training sessions will be continued in fiscal 2011.

### Compliance Helpdesk

In February 2010, the Compliance function set up a Compliance Helpdesk that employees can contact by telephone or e-mail if they have any questions about compliance. The Compliance Helpdesk received and answered a total of over 1,100 questions in the reporting period.

### Business Partner Approval Tool

The policy on engaging business partners lays down binding rules on the use of the Business Partner Approval Tool, a web-based application that allows a fast, transparent, and comprehensive review of a business partner's integrity, and cooperation with the business partner to be approved. The Business Partner Approval Tool was developed by the compliance organization in the reporting period in cooperation with sales staff and has been used at initial sites since September 2010. In fiscal 2010, almost 500 sales staff were trained in the use of this tool in four countries (Germany, Austria, Russia, and Switzerland). The rollout of this tool and training sessions at other sites will continue in fiscal 2011.

### Reporting compliance violations

Compliance violations are not tolerated at MAN. There is a unit in the Compliance function that investigates reports of compliance violations, if necessary with the support of the Internal Audit function or the departments concerned. Any violations identified are punished according to the penalties permitted under labor law. In individual cases, the responsible government investigating authority is also informed about the violation. The findings from the clarification of compliance violations are used to continuously improve the compliance system. Employees can currently report compliance violations internally (to their supervisor, or their compliance, human resources, or legal departments) or externally to an ombudsman. At the beginning of 2011, MAN will also launch a web-based whistleblower portal in eleven different languages that both MAN staff and third parties can use to report serious compliance violations confidentially in their local language.

### Anticorruption organizations

MAN is in talks with various anticorruption organizations with a view to meeting international demands for an effective compliance organization and fighting corruption on joint projects. Since September 2010, MAN has been a member of Transparency International, a nongovernmental organization dedicated to fighting corruption.

## Outlook

### A global economic recovery with slight upward momentum

Management anticipates that the global economic recovery will persist in 2011 and continue to have a positive impact on the transportation and energy markets. The economic recovery is expected to continue over the next two years, with the slowdown in evidence since the second half of 2010 persisting throughout the first half of 2011. In particular, the effect of economic stimulus measures in the industrialized countries will decline. These countries are expected to record slower growth, which will also impact emerging economies and slow the pace of their exports. According to forecasts from IHS Global Insight, this means that global growth will slow somewhat compared with 2010 to 3.3% in 2011, but pick up slightly to 3.7% in 2012. It is assumed that growth in the BRIC countries will be three times faster than in the industrialized nations, particularly in 2011. A weak dollar and growth in developing countries will have a positive impact on exports.

In the Commercial Vehicles business area, an above-average increase in demand is expected in the BRIC countries in the coming years. The Russian commercial vehicles market, which has experienced a severe crisis in recent years, is forecast to grow by an average of 35% p.a. in the next two years due to rising demand in the energy sector in particular. Markets such as India and China that have boomed on the back of tax breaks for new vehicle purchases will improve slightly on their record levels. China will remain by far the world's largest heavy trucks market. The Brazilian commercial vehicles market remained relatively stable during the financial crisis and should record single-digit percentage growth in the coming years provided that there is no change in the current favorable financing conditions. Global unit sales of heavy commercial vehicles will continue to increase in 2011; the *Verband der Automobilindustrie* (VDA—German Association of the Automotive Industry) expects growth of 8%.

In the shipbuilding industry, lingering overcapacity in the container ship and bulk freighter markets among others means that price pressure will remain high in the coming quarters. As a result, only slight growth is forecast in the marine engines segment in the coming years. China in particular will continuously progress towards becoming the world's largest shipbuilding nation and account for a substantial share of growth. Steady moderate growth is expected in the Turbomachinery strategic business unit in the coming years. The key markets for the oil and gas business at present are China, the Middle East, and Brazil. Future demand for new power plants in Europe will be driven primarily by the replacement of existing capacity. Efforts to meet climate protection goals will create opportunities to make greater use of alternative technologies, such as solar power. The importance of natural gas or LNG (liquefied natural gas) will increase further in both shipping and stationary applications.

The recovery in the United States and Europe will initially slow in 2011 before strengthening again in the course of the year. The Institut für Weltwirtschaft (IfW—Institute for the World Economy) is forecasting 2.5% growth for the United States in 2011, underlining expectations that its upturn will be more muted going forward. By comparison, US economic growth was 2.8% in 2010.

The forecast for the euro zone in 2011 paints a divided picture that comprises sustained real economic growth in Germany, Belgium, and the Netherlands on the one hand, and the countries affected by the debt crisis (Greece, Portugal, and Spain) on the other. Growth rates across the eurozone countries will continue to vary enormously. There are currently scarcely any opportunities for European monetary policy to kick start the economy in the short term, with interest rates already extremely low and money markets well supplied with liquidity. At present, inflation is expected to settle at just under 2% in 2011. Overall, the economic slowdown at the end of 2010 will persist throughout the first half of the year and only be overcome towards the end of 2011. The IfW is forecasting 1.3% growth in gross domestic product for 2011. Overall, the euro zone will not offset the decline in output caused by the crisis until during 2012. In the Commercial Vehicles business area, MAN is expecting the truck market to grow in all European regions in the period from 2011 to 2013. While demand in the peripheral countries is only picking up slowly due to existing economic problems, demand for

heavy trucks in Germany should increase much faster. The VDA is predicting 14% growth in this segment for 2011. During the crisis, the European bus market recorded a much less pronounced slump than the truck market. Overall, slight growth is expected in this market for 2011 and 2012.

The economic upturn in Germany is set to continue in 2011. The IfW anticipates gross domestic product growth of 2.3% for 2011 and 1.3% for 2012. In addition to domestic demand and investment, foreign demand and private consumption will also rise next year, as already seen at the end of 2010. However, it appears that the pace of expansion will be much more moderate than in 2010. Investment activity will continue to increase this year and next year due to growing capacity utilization and favorable financing conditions.

Brazil remains a growth driver in Latin America, but its expansion will slow compared with 2010. It is expected to see average growth of 5% in the coming years, which will result from investments in the run-up to the 2014 soccer World Cup and the 2016 Olympic Games, among other things. In particular, capital expenditure on infrastructure is likely to be substantial. If massive capital imports continue in future, appreciation pressure on the real will remain a risk for the country's export industry. According to current forecasts by the Brazilian central bank, inflation will be around 5% in the next two years.

The Indian economy is expected to essentially maintain its high growth of around 9% in the next two years. The slowdown in growth will also continue in the other East Asian emerging economies following their high growth rates at the beginning of 2010. As a key customer of upstream products, China will have a dampening effect due to its now more restrictive monetary policy and the decline in the pace of its expansion.

Despite this anticipated growth trend in the global economy, Management considers in its decisions the downside risks to global economic activity that also exist in an environment of uncertainty. There remains a risk of renewed tensions in the financial markets, further increases in the price of oil and other commodities, protectionist efforts, and a disorderly correction of global imbalances, the occurrence of which could have an adverse impact on current growth. The MAN Group is constantly monitoring ongoing economic developments and will take additional measures without delay should this become necessary in the event of a deterioration in the economic situation.

#### Returns and operating profit

The MAN Group anticipates a continuing economic recovery in 2011. In the Commercial Vehicles business area, revenue is forecast to increase by between 10% and 15%. Assuming this to be the case, management expects a return on sales in the region of 7%. In the Power Engineering business area, revenue is expected to fall by up to 5% in 2011. Return on sales will remain in double digits. Across the MAN Group, revenue is currently expected to increase by between 7% and 10%. Return on sales will therefore improve by one percentage point. Net interest expense and the tax rate will remain at a comparable level in 2011.

In 2012, revenue in the Commercial Vehicles business area will continue to increase due to international growth, but at a more moderate pace. As a result, return on sales should then be well in excess of 7%. In the Power Engineering business area, there is expected to be a slow recovery in new shipbuilding, which in 2012 will only be reflected in order intake. Revenue and ROS will remain stable. Management currently estimates that revenue growth across the MAN Group will be in the single digits in 2012. It anticipates that earnings will rise at a slightly faster pace, enabling the Group to achieve a return on sales of at least 8%.

### Long-term growth strategy

The MAN Group will continue to systematically pursue its growth strategy in the future, particularly in the BRIC countries. A second focus is on further increasing the flexibility of the Group's cost structures. MAN does not rule out corresponding capacity adjustments if necessary, so that the Group can effectively manage economic fluctuations and the related effects on demand.

A central task in the Commercial Vehicles business area is systematic international growth and the leveraging of potential synergies. Besides the BRIC countries, the key growth regions for MAN Truck & Bus are the growth markets in Asia. As the market leader in Brazil, MAN Latin America has an extensive sales and service network. As is the case in the strategic partnership with Chinese truck manufacturer Sinotruk, the focus here is on successfully covering emerging markets by providing specific products.

The merger of MAN Diesel & Turbo will enable customer requirements to be better met by providing needs-driven products and leveraging synergies through the joint use of existing infrastructure. The energy generation market will be more rigorously developed by offering product packages. Across all companies, the focus will remain not only on expanding new business, but also on bolstering after-sales operations under the "MAN PrimeServ" brand. Here too, MAN needs to offer an attractive end-to-end package comprising a leading technological product and appropriate service.

In mid-2010, MAN entered into an agreement with commercial vehicles manufacturer Scania to cooperate on purchasing and technology issues that do not have any significant brand reference. The initial focus is on a defined number of purchasing and development projects. Management of both companies is currently examining the legal possibilities of further cooperation. Closer integration only makes sense if both companies profit from it—in particular the employees, customers, and shareholders of MAN and Scania.

### Capital expenditure, research and development, and procurement

The primary goal of the investments made in 2011 will be to safeguard the MAN Group's long-term success. Again, these mainly comprise the ongoing modernization of its production facilities, necessary expenditure on replacement items, and the continued expansion of the service and sales network throughout the MAN Group. Management will use portfolio measures if the opportunity arises.

Research and development is of elementary importance to the MAN Group because the Company can only meet customer and legal requirements by developing leading technological solutions. Our R&D activities are rigorously aimed at providing customers with a competitive advantage. As a result, they continue to focus on enhancing MAN's commercial vehicle and diesel engines in terms of their performance, consumption, and emissions standards; further developing its truck and bus models; and improving the product range in the Power Engineering business area. In 2011 and 2012, the MAN Group will step up its R&D activities and therefore increase research and development expenditures slightly with the goal of maintaining and expanding its technological position through R&D.

As a result of MAN's international growth strategy, purchasing activities will continue to focus on global procurement markets. To ensure the sustainability of successful purchasing strategies and generate additional synergies, non-production-related requirements are procured by a Group-wide Purchasing function centrally and by group of goods. The use of the preventive risk management system by the Purchasing function to continuously monitor supplier relationships will continue to form the basis of successful and efficient procurement. The cost of materials will develop largely in line with revenue in 2011 and 2012.

### Cash flow

In view of the economic situation, cash management will be a particular focus. This will be supported by the Group-wide working capital optimization program. The sustainability of measures to reduce inventories and receivables will gain in importance once the markets recover and demand therefore picks up. The MAN Group's

financing structure aims to achieve an economically sensible mix of operating cash flow and external finance. The Group's placement of a corporate bond in 2009 with a total volume of €1.5 billion and maturities of four and seven years is helping to safeguard MAN's long-term financial stability.

Due to the current situation, no significant financing measures are planned for 2011 with the exception of local financing arrangements in emerging market countries and asset-backed financing arrangements to refinance the financial services business.

Helped by positive cash flow in the Industrial Business, net financial debt in the coming year will be on a level with 2010. The simultaneous expansion of sales financing will slow the reduction in net financial debt.

Once again, the MAN Group would like to enable its shareholders to participate in the Company's success by distributing an appropriate share of its profits for 2010 bearing in mind the economic environment. The dividend for this year will therefore be higher than that for 2009. The amount distributed is not fixed; the Group generally aims for 30% to 60% of net income.

### Employees

The number of employees in the MAN Group will remain at the current level in the next two years.

### Uncertainties in the outlook

The forward-looking statements and information described above are based on current expectations and certain assumptions. They therefore involve a series of risks and uncertainties. A large number of factors, many of them beyond the MAN Group's control, affect its business activities and their outcomes. These factors may cause the MAN Group's actual performance and results to differ considerably from those discussed in the forward-looking statements.

## Events after the reporting period

On January 5, 2011, MAN exercised its right to cash settlement in connection with the call option on 1.5% of the equity and 2.8% of the outstanding voting rights of Scania. The transaction led to a cash settlement of €29 million, which MAN received on January 7, 2011. At the same time, MAN lost access to more than 20% of the voting rights of Scania, with the result that the investment in Scania is no longer accounted for using the equity method after January 5, 2011, but as a financial investment. This investment was initially recognized at fair value on January 5, 2011 and amounted to €1,815 million. The reclassification resulted in a gain of approximately €455 million in the first quarter of 2011.

From January 18 to 20, 2011, the European Commission conducted a search at MAN due to a suspected possible antitrust violation in the commercial vehicles segment. MAN has assured the European Commission of its comprehensive cooperation in order to thoroughly clarify the allegations. MAN does not tolerate compliance violations. Neither corruption nor breaches of competition law are tolerated, promoted, or accepted by MAN.