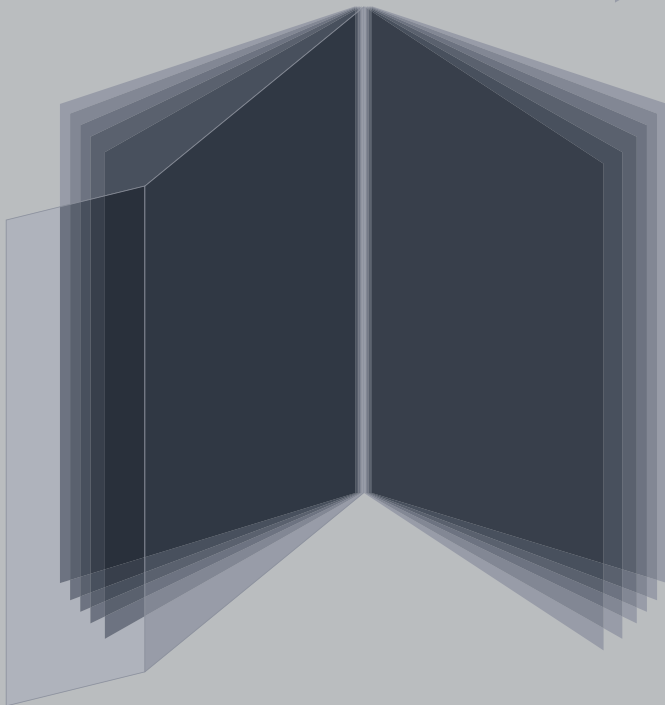
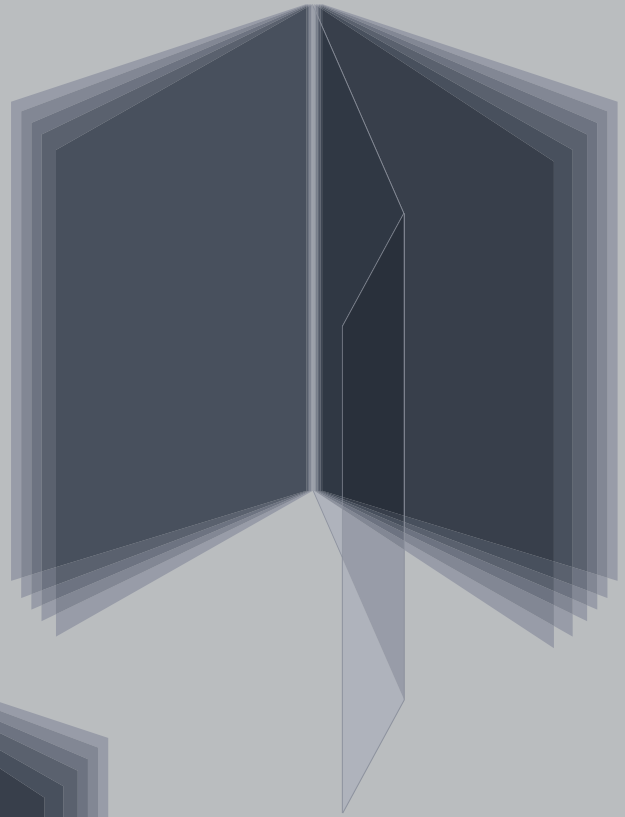
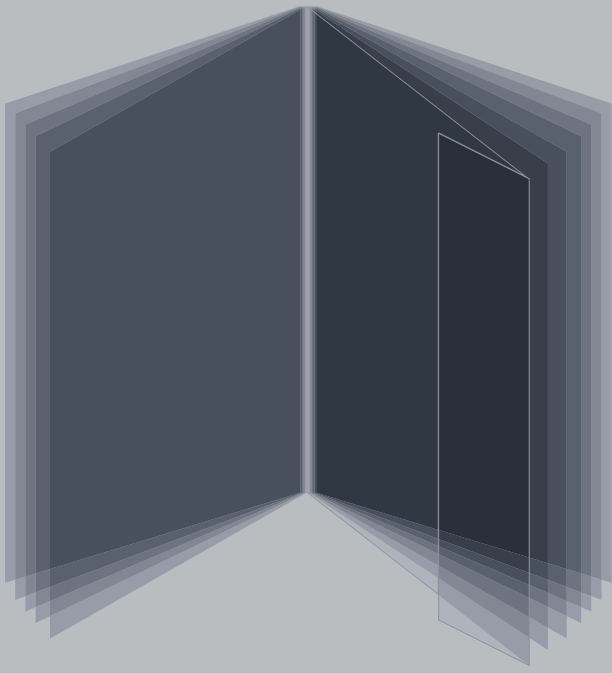


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# 03 Group Management Report

for the fiscal year from January 1  
to December 31, 2010

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# Group Management Report

## Highlights 2010

### Focusing on transportation and energy a success, operating profit doubled

- At €15.1 billion, order intake up significantly on previous year (+53%)
- Revenue increases by 22% to €14.7 billion (previous year: €12.0 billion) in an improving economic environment
- At €1,035 million, operating profit exceeds expectations (previous year: €504 million)
- Return on sales (ROS): 7.1% (previous year: 4.2%); return on capital employed (ROCE): 17.4% (previous year: 8.8%)
- Free cash flow: €1.1 billion, net financial debt falls to below €1.8 billion
- Earnings per share from continuing operations €5.30 (previous year: loss per share of €-2.69); excluding gains from nonrecurring items and effects from purchase price allocations €3.38 (€1.47)
- Proposed dividend increased to €2.00 per share (previous year: €0.25)

### Outlook for 2011

- Target revenue growth of between 10% and 15% in the Commercial Vehicles business area
- Decline of up to 5% in Power Engineering revenue possible
- ROS to improve by one percentage point
- Systematic continuation of internationalization strategy
- Focus on increasing efficiency, cost discipline, and improving cash flow

# Group Management Report

## The MAN Group's Business Activities and Strategy

### The MAN Group

The MAN Group's focus on transportation and energy makes it one of Europe's leading engineering players. MAN Aktiengesellschaft became a Societas Europaea (SE) in 2009 and now operates as MAN SE. The sale of a majority interest in MAN Ferrostaal AG and the acquisition of MAN Latin America in 2009 completed the focusing process on the Commercial Vehicles and Power Engineering business areas.

MAN companies rank in the top three in their respective markets. The Group has approximately 47,700 employees in 150 countries. The MAN divisions are MAN Truck & Bus (formerly MAN Nutzfahrzeuge), MAN Latin America, MAN Diesel & Turbo, and Renk. The MAN Group is headed by MAN SE, which is the Group's Corporate Center. In 2010, the MAN Group generated revenue of €14.7 billion and operating profit of €1,035 million.

### Overview of the business areas

#### Commercial Vehicles business area

MAN Truck & Bus is one of Europe's leading manufacturers of commercial vehicles, with production facilities in four European countries and in India. Its products range from trucks with a total weight of 7.5 to 44 t for all applications, special-purpose vehicles with a gross train weight of up to 250 t, through buses and coaches, to combustion ignition and spark-ignited engines for on- and off-highway uses. MAN Finance International GmbH, Munich, and the national companies allocated to it (MAN Finance), offer financing solutions, in particular leases, to commercial vehicle customers. These activities are supported by an international sales and service network. MAN Truck & Bus's revenue amounted to €7.4 billion and its operating profit was €158 million.

MAN Latin America is Brazil's largest truck manufacturer and the country's market leader for trucks with a gross vehicle weight (GVW) of more than 5 t. MAN Latin America has produced trucks and buses in Resende since 1996. Its vehicles are sold in Latin America and Africa in particular, and it delivered 65,630 trucks

and buses in full-year 2010. MAN Latin America has a nationwide sales and service network in Brazil and its neighboring countries. MAN Latin America staff and partner suppliers work together at the Resende plant, which has a modular production system. Revenue amounted to €3.1 billion in 2010 and operating profit €370 million, with employees totaling 6,149.

Since the second half of 2009, MAN SE has held an interest of 25% plus one share in Sinotruk Ltd., Hong Kong/China, as a strategic investor and signed an agreement on a long-term strategic partnership with Sinotruk. The partnership combines the progressive technology and expertise offered by MAN with Sinotruk's existing production facilities, local knowledge, and extensive sales network in China. As part of the agreement, MAN is licensing to Sinotruk its TGA truck technology, including engines, vehicle chassis, and axles as the basis for producing a new heavy truck series.

#### Power Engineering business area

In the first half of 2010, MAN Diesel and MAN Turbo merged to form a single company, MAN Diesel & Turbo, in order to leverage additional growth potential in the energy generation segment by offering new product packages. The company is one of the world's leading developers and manufacturers of large-bore diesel engines, turbo compressors, industrial turbines, and chemical reactor systems.

MAN Diesel & Turbo commands a strong market position both in the development of two-stroke diesel engines for propulsion systems in large ships and in the manufacture of four-stroke diesel engines built into smaller vessels and as engines for electricity generation at power plants. While the two-stroke engines are built by licensees, MAN Diesel & Turbo manufactures most of its four-stroke engines at its sites in Germany and France. The company also offers a complete range of turbomachinery for various industries such as oil and gas, refineries, and chemicals, as well as for the production of industrial gases and electricity. Its product range is supported by a comprehensive after-sales service. MAN Diesel & Turbo's revenue amounted to €3.8 billion in 2010 and its operating profit was €439 million.

Renk is a listed subsidiary of MAN SE and a global manufacturer of transmissions and propulsion systems. MAN holds 76% of the company's capital. Renk is a global market leader for tracked vehicle transmissions and electric machine bearings. Renk also has a leading position in marine and industrial gear units. Renk's product portfolio comprises vehicle transmissions, drive elements (slide bearings and couplings), special-purpose propulsion systems (industrial and marine gear units), and broad-use propulsion systems (industrial and marine gear units, couplings). In addition, the company manufactures testing systems that are used in development, production, and quality assurance primarily in the automotive, rail, and aviation industries. Renk's revenue amounted to €0.4 billion in 2010, and its operating profit was €52 million.

## The MAN Group's strategy and strengths

### Emerging successfully from the crisis

All the signs are that the macroeconomic crisis has been overcome. Longer-term forecasts are becoming increasingly difficult, which means that MAN and the entire industry alike must be prepared for high volatility and must therefore act flexibly. Nevertheless, MAN has repeatedly proved over more than 250 years that it can deal with uncertainty and adapt to new developments. The Company pursues a clearly defined strategy that focuses on profitable international growth, technology leadership, customer orientation, sustainable value creation, and transportation and energy.

### Profitable international growth

Europe remains MAN's most important market and therefore its mainstay. Premium products and excellent service quality ensure that the Company has a high market share in this region, especially in the commercial vehicles business. The development expertise at the Group's sites in Western Europe is instrumental in safeguarding MAN's technology leadership in its business areas for the long term.

However, despite the difficult market situation in the past two years, MAN continues to pursue its defined international growth strategy for the Commercial Vehicles business area. In the medium term, the need for transportation in the BRIC countries (Brazil, Russia, India, and China) in particular will continue to grow significantly and infrastructure expansion in these countries will be driven forward. This will increase demand for trucks and buses in the medium term. Although these countries collectively represent approximately 50% of the world's population, they currently account for only around 14% of global economic output. Above-average annual growth rates of between 5 and 10% demonstrate the pace of expansion in these economies. Today, MAN sells one in two of its heavy trucks and an even greater proportion of buses in one of the BRIC countries.

In addition to India and China, where MAN Diesel & Turbo already has a strong presence, the Brazilian market offers numerous opportunities for the company's products due to the fast growing oil and gas industry there. Brazil's plans to develop its own shipyard industry and ethanol production using sugar cane could offer a substantial volume of business for MAN Diesel & Turbo's products going forward.

### Technology leadership

Technology leadership is a strategic success factor for MAN. A continued ability to innovate and adapt has made MAN a pioneer in the transportation and energy industry. The Company sets trends by identifying future requirements at an early stage and expertly transforming them into sustainable solutions.

For example, MAN presented the pioneering Concept S truck study, whose visionary approach departs from conventional truck design, at the 2010 International Commercial Vehicles Motor Show (IAA). The model's aerodynamics alone, which have reached the high level of the passenger car industry, allow fuel consumption to be reduced by up to 25% for long-distance trucks and lower CO<sub>2</sub> emissions compared with conventional trucks.

The Green Ship of the Future, a project that was jointly launched in 2008 by MAN Diesel & Turbo, the Danish shipping company A.P. Møller-Mærsk Group, Odense Steel Shipyard, and Aalborg Industries, now has 15 partners and received the International Environmental Award. The primary objective of The Green Ship of the Future is to identify and develop new technologies to substantially reduce ship emissions. The challenging goal is to cut CO<sub>2</sub> emissions by 30% and nitrogen and sulfur oxides by 90%. The project received the Sustainable Shipping organization's International Environmental Award for the most environmentally friendly transportation initiative.

MAN's aim is to be the most cost-effective provider over the entire lifecycle of the products and in terms of its costs for the environment and society. Technology leadership is a key prerequisite for this ambitious objective.

### Customer orientation

The MAN Group's business activities focus on the needs and expectations of its customers. The highest quality and thus reliability and cost-effectiveness are the goals we set for all our products and services over their entire lifecycle. MAN Truck & Bus's "Consistently Efficient" program offers customers an optimized package of vehicle, maintenance, and services as well as flexible rental, leasing, and financing options. MAN Truck & Bus enables transportation companies to optimally focus their fleet by offering a broad range of services. Service agreements that are differentiated by target group make costs transparent right down to the cent per kilometer. Optimally maintained vehicles ensure that transportation orders can be carried out at any time and increase resale value.

Service and after-sales concepts tailored to customer needs are a key component of MAN's strategy. For example, the Company presented MAN Service Complete at the IAA 2010. This new concept ensures that repair and maintenance work not only on a truck, but also on its trailer, semi-trailer, and body, are carried out in a single stop at a single MAN Service outlet. To be even closer to its customers, MAN Diesel & Turbo has defined the continuous expansion of its PrimeServ service network as a strategic goal. MAN Diesel & Turbo's After Sales strategic business unit covers a substantial proportion of fleet requirements for diesel engines, while its retrofit area for turbo compressors is a pioneer.

### Sustainable value creation

MAN is committed to sustainable corporate governance that entails comprehensive and strategic management of all economic, environmental, and social demands placed on the Company.

Adding economic value is of central importance for MAN and is reflected by the achievement of ambitious return on sales and return on capital employed targets. In particular, stability in generating returns is vital—in this area, MAN focuses on sustainably expanding its service structures. The Company pursues a responsible human resources policy for its workforce that puts the emphasis on the individual employee. MAN attaches particular importance to individual advancement and continuous professional development. In particular, the Company supports employees who show initiative and are willing to take responsibility. People who demonstrate that they enjoy accepting challenges are quickly given their own freedoms at MAN. High performers are able to grow as their responsibilities increase and to use their professional and social skills in equal measure.

Protecting the environment and conserving natural resources are essential criteria for a successful long-term business. As a technology leader, MAN makes a positive contribution to the environment and society by developing environmentally- and climate-friendly products and production processes. Sustainable

transportation and energy solutions that reconcile ecological and economic requirements are the key to a successful product policy for MAN. See "Corporate Responsibility" for further information.

MAN believes that the free interplay of competitive forces and responsible corporate governance are key levers for sustainable corporate development. Infringements of laws and guidelines are not tolerated and are systematically pursued.

### Focus on transportation and energy

In recent years, MAN has successfully specialized in commercial vehicles and power engineering. In the long term, these two fields will profit disproportionately from the strong growth in emerging economies accompanied by increasing demand for transportation and energy.

MAN is a leading provider in the international vehicle industry, offering products and services that are tailored to individual markets worldwide in its Commercial Vehicles business area. MAN Truck & Bus is expanding from its core Western European market into the growth markets of Eastern Europe and Asia. As the market leader in Brazil, MAN Latin America has state-of-the-art production facilities and an extensive sales and service network in the emerging Latin American markets. These two companies enable the MAN Group to successfully cover both premium markets and emerging economies with specific products. The Group's stake in Sinotruk, the number two in the Chinese heavy trucks market, also allows it to participate directly in growth in China, the world's largest and fastest-growing commercial vehicles market. This strategic partnership will develop a new product for emerging economies and growth markets under a new brand and launch it in 2011.

MAN's second strategic business area, Power Engineering, is an economically logical form of diversification and a suitable counterbalance to the commercial vehicles business. MAN Diesel & Turbo is the world's leading supplier of large-bore diesel engines for use in ships and power plants, and specializes in developing and building compressors as well as gas and steam turbines. The successful merger of the two divisions enables MAN to offer customers new product packages such as turnkey DCC (diesel combined cycle) power plants or exhaust heat recovery systems for marine applications. This area is complemented by Renk, a globally recognized manufacturer of high-quality special gear units.

## Divestments

On March 25, 2009, MAN transferred 70% of the shares of Ferrostaal AG, Essen, (Ferrostaal) to International Petroleum Investment Company, Abu Dhabi/U.A.E. (IPIIC). The price for 100% of the shares of Ferrostaal is approximately €700 million and is contingent on the option agreed by MAN and IPIIC on the purchase and sale of the remaining shares. The contractually agreed put option for the remaining 30% interest in Ferrostaal was exercised by MAN at the beginning of January 2010. The purchaser refused to complete the transaction, referring among other things to the ongoing investigations by the German public prosecution authorities at Ferrostaal. In addition, IPIIC notified MAN at the end of September 2010 that it had filed an arbitration action to unwind the Ferrostaal transaction, and additionally for compensation for damages incurred. The arbitration action was served on MAN on October 18, 2010. MAN is analyzing the precise content of the action and is preparing its defense against the arbitration action.

See "Litigation/legal proceedings" and the "Notes to the Consolidated Financial Statements" for further information.

# Group Management Report

## Business Developments and Results of Operations in 2010

### Economic environment

Fiscal 2010 was characterized by the global economic recovery. Following a 0.6% decline in global economic output in 2009 due to the international economic and financial crisis, the IMF is forecasting growth of 4.8% for 2010.

Despite the overall upward trend shown by the world economy, the pace of growth slowed somewhat because the boost provided by the inventory cycle and fiscal stimuli diminished. In most advanced economies, the combination of a weak labor market outlook, the ongoing reduction in borrowing, and muted consumer confidence is also leading to an economic slowdown. Growth in the emerging economies remains robust, but has also weakened slightly of late.

The strong economic recovery that was apparent in the Latin American countries in the course of 2010 continued up to the end of the year. In particular in Brazil—a key market for MAN—high corporate investment, rising industrial output, and buoyant consumer spending among other factors led to an expected increase of 7.6% in gross domestic product.

Economic output in Asia's emerging economies in the third quarter of 2010 confirmed this region's sustained and robust development, although the pace of growth slowed somewhat compared with Q2. Domestic consumer demand has now clearly become the most important driver in a number of countries. In China, real annualized gross domestic product growth continued to slow to 9.6% in the third quarter of 2010, compared with 11.9% in Q1 and 10.3% in Q2. This slight decline reduces the continuing risk of the country's economy overheating. Growth is increasingly being driven by private investment and the current account surplus, while government support measures are gradually being withdrawn.

The eurozone economy has been growing since mid-2009. The second quarter of 2010 saw an increase of 1.0%, due among other things to the rise in capital spending by 1.5% as against the previous quarter. This underlying momentum continued in the second half of the year, with the result that overall growth of 1.7% is forecast for 2010. The ongoing global economic recovery will continue to have a positive effect on demand for export goods in the euro zone. At the same time, domestic demand in the private sector is likely to contribute to growth, having been bolstered by monetary policy and the measures taken to restore the functioning of the financial system. For Germany, the IMF is expecting a 3.3% increase in real gross domestic product in 2010, driven largely by high exports.

### Sharp upturn in business

Business in 2010 was dominated by the economic recovery. The MAN Group's order intake improved by 53%. Revenue increased by 22%, due in particular to the recovery in the Commercial Vehicles business area. Operating profit rose to €1,035 million—double the 2009 figure. Return on sales climbed from 4.2% to 7.1%.

## Order situation

The economic environment improved sustainably in 2010, which had a positive effect on the transportation and energy markets. The European commercial vehicles business recovered faster than expected. Demand in Brazil led to a record year in the Company's history. Business in the Power Engineering business area remains dominated by the clearance of the high order backlog from previous years. Despite an 18% increase in order intake, revenue at MAN Diesel & Turbo remained above orders received in fiscal 2010. Although order intake was extremely strong overall, the MAN Group's order backlog as of the fiscal year-end therefore amounted to €7.0 billion, 5% below the previous year (€7.4 billion).

### Significant increase in order intake

The global economic recovery led to an increase in order intake in all divisions. The MAN Group recorded incoming orders of €15.1 billion in 2010, which represents a rise of 53% on the previous year (€9.9 billion) and a return to the average level in the past. However, the Group was unable to match the high order volume shortly before the crisis. Order intake in the Commercial Vehicles business area was 68% above the previous year due to growing demand in the European commercial vehicles business and the ongoing boom in Brazil. After 2009, incoming orders in the Power Engineering business area also recorded an upward trend of 24%. At €0.9 billion, major orders received by the MAN Group in fiscal 2010 were up only slightly year-on-year (2009: €0.8 billion).

The upturn in order intake was as pronounced in Germany as it was abroad. International orders rose by 55% to €11.6 billion as against the high prior-year level. Domestic orders were up by 46% to €3.5 billion. At 77%, the proportion of international orders was slightly above the previous year.

Orders in Europe increased by 50% compared with the previous year. MAN's main sales countries are Germany (€3.5 billion), the United Kingdom (€0.8 billion), France (€0.5 billion), and Russia (€0.5 billion). Order intake quadrupled in Russia, and the United Kingdom recorded an 82% increase. In 2010, the share of the

MAN Group's total order intake accounted for by Europe fell by 2% to 56%. Europe therefore remains the Group's most important region, followed by the Americas with a 27% share and Asia (13%).

Order intake in the Americas rose from €1.9 billion in the previous year to €4.0 billion, with Brazil accounting for €3.2 billion or 81% of this amount (previous year: 71%). MAN Latin America contributed €2.9 billion (89%) to the share attributable to Brazil, increasing the Company's order intake by more than two thirds in fiscal 2010. Orders in Asia also grew by 19% to €1.9 billion. €1.3 billion of this amount related to MAN Diesel & Turbo, which generated 33% of its order intake in China.

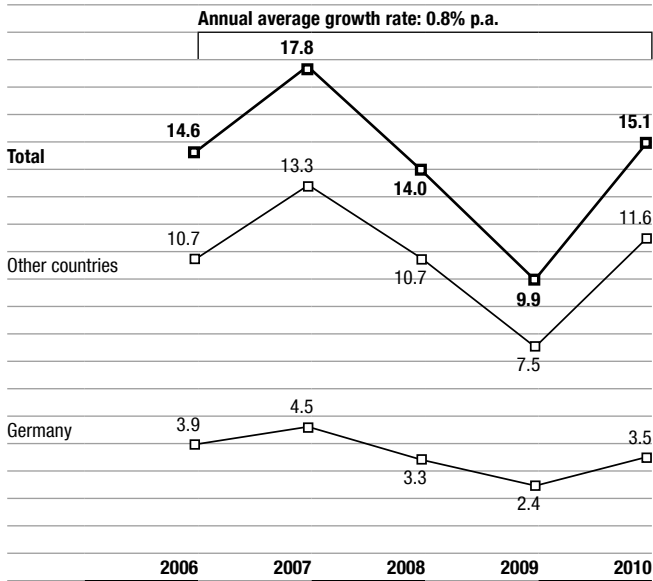
#### Order intake by business area € million

	2010	%	2009	%
Commercial Vehicles	11,163	74	6,636	67
Power Engineering	4,000	26	3,230	33
Others/Consolidation	-91	-	-6	-
<b>MAN Group</b>	<b>15,072</b>	<b>100</b>	<b>9,860</b>	<b>100</b>

#### Order intake by region € million

	2010	%	2009	%
Federal Republic of Germany	3,489	23	2,388	24
Other EU countries	3,829	25	2,736	28
Other European countries	1,181	8	559	6
Asia	1,908	13	1,607	16
Americas	4,003	27	1,931	20
Africa	591	4	485	5
Australia and Oceania	71	0	154	1
<b>MAN Group</b>	<b>15,072</b>	<b>100</b>	<b>9,860</b>	<b>100</b>

**Five-year order intake trend**  
 € billion

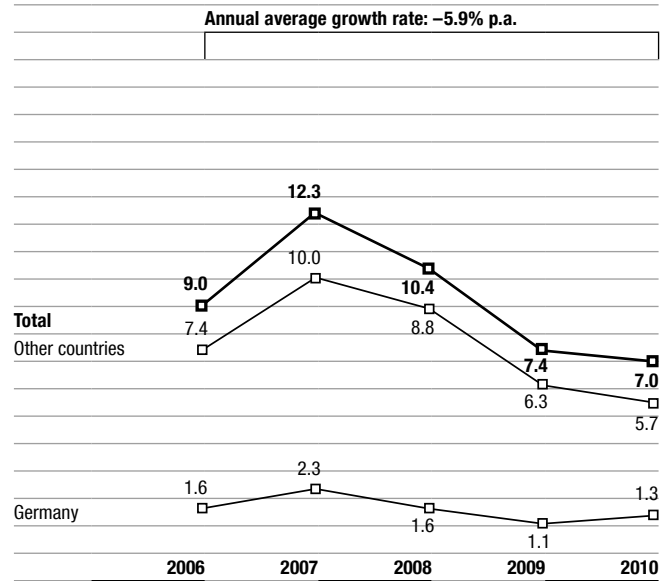


Like-for-like data for all years, excluding discontinued operations

### Order backlog stabilizes

The recovery in order intake in 2010 meant that orders received again slightly exceeded revenue. Apart from isolated cancellations, the decline in the order backlog therefore stabilized and, at €7.0 billion, was only slightly below the previous year. The Commercial Vehicles business area in particular recorded a 5% increase in its order backlog compared with 2009. The figure for the Power Engineering business area again declined year-on-year, at -11%. However, the Power Engineering business area's order backlog remains higher than its annual revenue, and spans approximately a year.

**Five-year order backlog trend**  
 € billion



Like-for-like data for all years, excluding discontinued operations

### Continuous increase in revenue

The MAN Group's revenue continuously increased from quarter to quarter in 2010. In the last quarter alone, it rose by 11.4% as against Q3 and therefore totaled €14.7 billion for the fiscal year as a whole, up 22% on 2009. At 36%, the highest increase was recorded by the Commercial Vehicles business area, with annual revenue amounting to €10.6 billion. MAN Latin America, which closed the strongest fiscal year in its history with revenue of €3.1 billion, made a significant contribution. The global recovery in the commercial vehicles industry was reflected at MAN Truck & Bus, leading to revenue growth of 16% to €7.4 billion. The highest-volume segment—heavy trucks—recorded an increase of 26%. Revenue from buses in 2010 declined again year-on-year, falling by 10% to €1.2 billion (previous year: €1.3 billion). The Power Engineering business area generated revenue of €4.2 billion in 2010 and was therefore slightly below the prior-year level of €4.3 billion. MAN Diesel & Turbo contributed revenue of €3.8 billion and Renk €0.4 billion. MAN Diesel & Turbo's revenue was therefore on a level with

the previous year. This reflected a 39% improvement in the Power Plants strategic business unit, which was partially offset by a 13% decline in the Engines & Marine Systems strategic business unit as a result of continued weak new ship construction.

The MAN Group's domestic revenue rose by 11% year-on-year to €3.0 billion. Approximately 84% of domestic revenue was again accounted for by MAN Truck & Bus, which generates 34% of its revenue in Germany. Domestic revenue accounted for 12% of the revenue generated by the Power Engineering business area, and the proportion at MAN Diesel & Turbo declined by 8% year-on-year, in particular in the Turbomachinery strategic business unit. International revenue, which represents 88% of revenue in the Power Engineering business area, was on a level with the previous year in 2010.

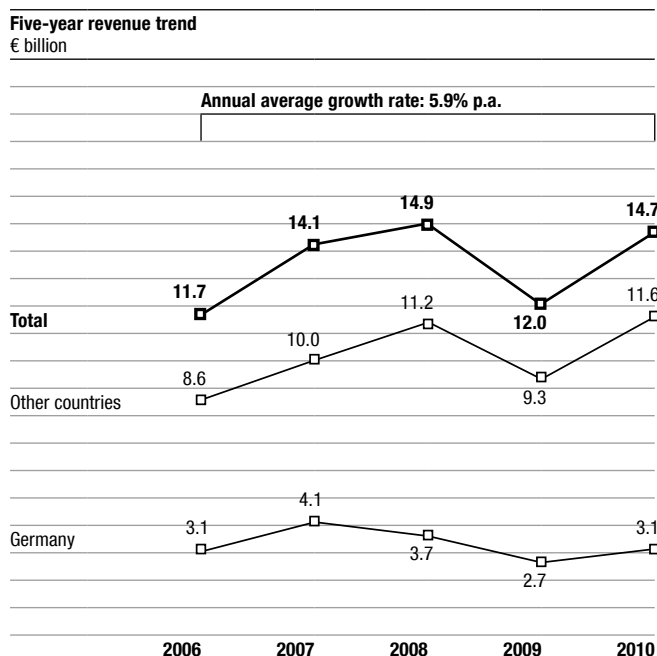
Compared with the previous year, international revenue in the entire MAN Group rose by 25% in 2010 to €11.6 billion. As a result, the proportion of total revenue generated abroad was 79% in the past fiscal year, after 77% in 2009.

Revenue in the European markets rose by 7% in 2010 to €7.9 billion, while the proportion of total revenue generated in Europe amounted to 54% (previous year: 62%). The share attributable to the Americas increased to 27% or €3.9 billion in 2010. €3.1 billion or 80% of this was attributable to MAN Latin America, which generated 93% of its revenue in the Brazilian market. Revenue in the Brazilian market grew by more than two thirds year-on-year to €2.9 billion. The MAN Group's revenue in Asia was up by 7% to €2.1 billion. €0.6 billion of this relates to China, mainly due to MAN Diesel & Turbo. The proportion of total revenue accounted for by Asia reached 14%.

Following the economic slump in the previous year, the MAN Group's revenue exceeded the average level of the past five years and even almost matched the high figure of €14.9 billion from 2008. Over this five-year period, revenue rose overall from €11.7 billion to €14.7 billion. This means that the MAN Group recorded average annual growth of 5.9% between 2006 and 2010.

Revenue by business area				
€ million				
	2010	%	2009	%
Commercial Vehicles	10,586	72	7,807	65
Power Engineering	4,169	28	4,270	35
Others/Consolidation	-80	-	-51	-
<b>MAN Group</b>	<b>14,675</b>	<b>100</b>	<b>12,026</b>	<b>100</b>

Revenue by region				
€ million				
	2010	%	2009	%
Federal Republic of Germany	3,058	21	2,751	23
Other EU countries	3,777	26	3,812	32
Other European countries	1,092	7	854	7
Asia	2,106	14	1,973	16
Americas	3,906	27	1,945	16
Africa	618	4	571	5
Australia and Oceania	118	1	120	1
<b>MAN Group</b>	<b>14,675</b>	<b>100</b>	<b>12,026</b>	<b>100</b>



Like-for-like data for all years, excluding discontinued operations

## Operating profit

The MAN Group generated an operating profit of €1,035 million in fiscal 2010, exceeding the one billion euro mark again. The doubling of this figure compared with the previous year is due to the Commercial Vehicles business area, which recovered sharply following the slump in the European commercial vehicles market in particular.

The Commercial Vehicles business area recorded an operating profit totaling €528 million in fiscal 2010. MAN Latin America contributed €370 million to this, more than double the prior-year figure on a like-for-like basis. However, MAN Latin America was not consolidated until the second quarter of the previous year. Operating profit in the European commercial vehicles business improved in line with the industry trend to €158 million (previous year: operating loss of €91 million). This includes negative effects from the financial services business amounting to €49 million. These effects increased by €7 million as against 2009 (€-42 million) due to continued high risk provisions. MAN Truck & Bus improved its operations in the Trucks business by €280 million. At €18 million, the profit generated by the Buses business was down €22 million on the previous year due to volume-related factors and the product mix.

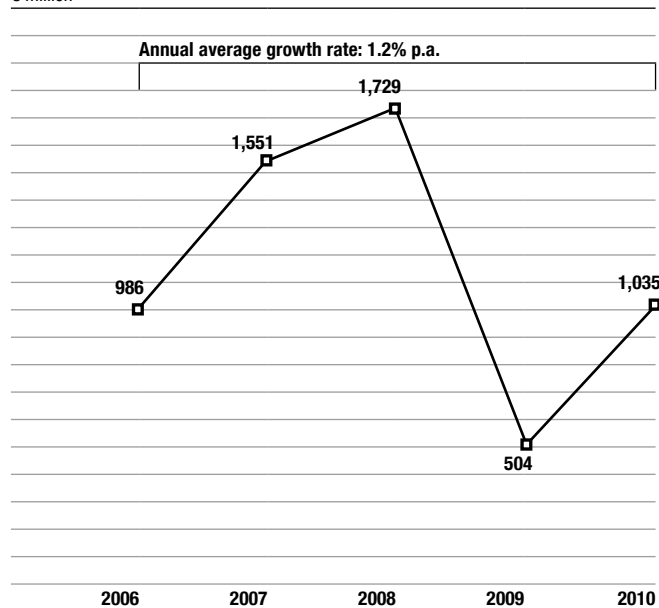
The Power Engineering business area generated an operating profit of €491 million. Operating profit at MAN Diesel & Turbo fell by €61 million to €439 million (-12%). This figure includes cost overruns and provisions as well as expenses for setting up the Power Plants strategic business unit. At €52 million, Renk was €14 million below the previous year (€66 million). In addition to MAN SE and its Shared Services companies, the figure for Others/Consolidation includes MAN's share of the net income/loss of Scania AB, Sinotruk Ltd., and manroland AG, as well as the consolidation adjustments between the MAN Group's divisions. The business volumes and earnings contributions of these investments increased in line with the general economic developments. Scania's earnings contribution in particular was €95 million above the previous year. The equity interest in Sinotruk that was only acquired in the fourth quarter of 2009 additionally accounted for €29 million.

### Operating profit/loss by business area € million

	2010	2009
Commercial Vehicles	528	51
Power Engineering	491	566
Others/Consolidation	16	-113
<b>MAN Group</b>	<b>1,035</b>	<b>504</b>

Following the sharp economic slump in the previous year, the MAN Group's operating profit doubled in 2010. It therefore returned to a healthy level in line with the economic recovery. The overheated markets in the boom years of 2007/2008 that led to exceptional results are only of limited value as a benchmark.

### Five-year operating profit trend € million



Like-for-like data for all years, excluding discontinued operations

Detailed information on business developments and the earnings generated by the MAN divisions is provided in the section of the management report entitled "The Divisions in Detail."

## Income statement

€ million	2010	%	2009	%
Revenue	14,675	100.0	12,026	100.0
Cost of goods sold and services rendered	-11,400	-77.7	-9,455	-78.6
Gross margin	3,275	22.3	2,571	21.4
Other operating income	516	3.5	532	4.4
Selling expenses <sup>1</sup>	-997	-6.8	-807	-6.7
General and administrative expenses <sup>1</sup>	-740	-5.0	-631	-5.2
Other operating expenses <sup>2</sup>	-1,142	-7.8	-1,091	-9.1
Income/loss from investments <sup>1/2</sup>	123	0.8	-70	-0.6
Operating profit	1,035	7.1	504	4.2

<sup>1</sup> Amount after reclassification of €-109 million of selling expenses/general and administrative expenses and income/loss from investments (previous year: €-62 million of selling expenses/general and administrative expenses) to earnings effects from purchase price allocations

<sup>2</sup> Amount after reclassification of €357 million of income from investments (previous year: €-656 million of expenses and income/loss from investments) to gains/losses from nonrecurring items

Revenue rose by 22% year-on-year in 2010; the cost of goods sold and services rendered merely increased at a slower rate due primarily to better capacity utilization in the Commercial Vehicles business area. As a result, the gross margin rose by €704 million to 22.3%, up significantly on the previous year. Selling expenses were up by 24% as against the prior-year period to €997 million due to sales volumes. The increase in general and administrative expenses was kept lower at 17% to €740 million.

At €516 million, other operating income was slightly below the prior-year figure (€532 million). Other operating expenses amounted to €1,142 million.

The improvement in income from investments to €123 million is attributable mainly to the higher share of income from the Scania (€99 million) and Sinotruk (€29 million) investments.

## Reconciliation to net income

€ million	2010	2009
<b>Operating profit</b>	<b>1,035</b>	<b>504</b>
Earning effects from purchase price allocations	-109	-62
Gains/losses from nonrecurring items	357	-656
Net interest expense	-158	-117
<b>Earnings before tax (EBT)</b>	<b>1,125</b>	<b>-331</b>
Income taxes	-338	-53
Income/loss from discontinued operations, net of tax	-65	126
<b>Net income/loss</b>	<b>722</b>	<b>-258</b>
Earnings per share from continuing operations in €	5.30	-2.69
Dividend per share in €	2.00	0.25

The MAN Group's earnings before tax amounted to €1,125 million in 2010 (previous year: €-331 million). This figure includes the earnings effects from the purchase price allocation performed as part of the acquisition of MAN Latin America in 2009, which amount to €-99 million, and from the interest in Sinotruk acquired at the end of 2009, which amount to €-10 million. To enhance long-term comparability, the effects from purchase price allocations are not included in operating profit.

The gains from nonrecurring items relate in full to the reversal of the impairment loss on the Scania investment. In the previous year, the Group recorded losses from nonrecurring items of €656 million. In addition to the writedown of Scania shares, these included payments for the administrative orders imposing fines totaling €150.6 million following the investigations by the public prosecution authorities due to suspected unlawful commission payments and the cost of internal investigations and severance payments amounting to €70 million. This item was also impacted by restructuring expenses for MAN Diesel & Turbo relating to the discontinuation of engine production at the Frederikshavn site in Denmark, and exceptional costs incurred in connection with the commercial vehicles market in Russia.

In addition to interest on bank balances and bank liabilities, net interest expense of €158 million includes net interest on pensions. The deterioration in this line item of €41 million relates to higher interest expenses for the bond used to finance the acquisition of MAN Latin America. Net interest expense in fiscal 2010 also reflects tax interest expenses in the amount of €22 million.

The MAN Group's tax expense increased by €285 million to €338 million due to earnings-related factors. The Group's tax rate was 30.0% (previous year: -16.0%) and is calculated from the tax rates of the German and foreign Group companies, prior-period income taxes, and tax-exempt income. The negative tax rate in the previous year is mainly attributable to the writedowns of investments that are not recognized for tax purposes.

Following the arbitration action sought by IPIC in connection with the sale of Ferrostaal, provisions for the maximum contractually possible warranties and guarantees were recognized and impact income from discontinued operations, net of tax. In the previous year, income from discontinued operations, net of tax (€126 million) was due mainly to the sale of 70% of the shares of Ferrostaal AG.

At €722 million, the MAN Group's net income improved by €980 million on the prior-year net loss of €258 million. Earnings per share from continuing operations rose from €-2.69 to €5.30. Adjusted for gains from nonrecurring items and excluding purchase price allocations, earnings per share improved from €1.47 to €3.38.

In view of the significant improvement in earnings, the Executive Board and Supervisory Board of MAN SE will propose a dividend of €2.00 per share carrying dividend rights to the Annual General Meeting (previous year: €0.25).

## Financial control system and value management

The key financial control measures in the MAN Group are defined as return on sales (ROS), which is the ratio of operating profit to revenue, and return on capital employed (ROCE), which is the ratio of operating profit to annual average capital employed. These primary indicators are used to assess the performance goals of the Group as a whole and its divisions.

In addition to these control measures, return on equity before tax (ROE) is now used as a further profitability indicator. It is only calculated at Group level and is included in the determination of the variable remuneration of MAN SE's Executive Board. Return on equity before tax is calculated by dividing earnings before tax by the MAN Group's average equity.

Alongside ROS, another key indicator previously used to determine the performance-related remuneration of managers was MAN value added (MVA). This financial measure, which was calculated as the difference between operating profit and the cost of capital, will no longer be used for control purposes from fiscal 2010. Instead, the modified measure referred to as the "delta to the cost of capital" (ROCE-WACC) will be introduced for the MAN Group as a component of performance-related remuneration. It corresponds to the difference between ROCE and the weighted average cost of capital (WACC).

In June 2010, the Supervisory Board of MAN SE amended the remuneration components for the members of the Executive Board of MAN SE to the effect that the calculation of the annual bonus based on business performance no longer depends on the previously used "MAN value added." Instead, the achievement of targets will be determined using the newly introduced "delta to the cost of capital" measure as well as the other new indicator—ROE—which is only used for the performance-related remuneration of Executive Board members. An average figure over two years will

be used to determine the achievement of targets under the “delta to the cost of capital” factor. 50% of the bonus under the ROE factor will be paid in shares.

### Target returns

The MAN Group aims for an ROS of 8.5% over an operating cycle and a ROCE that exceeds the cost of capital of 10%. The target return on sales is 8.0% in the Commercial Vehicles business area and 9.0% in the Power Engineering business area. A bandwidth of +/-2 percentage points is defined for all specified ROS figures.

### Operating profit

The earnings measure for calculating ROS and thus for assessing and managing the performance of a division is operating profit. As a rule, operating profit corresponds to earnings before interest and taxes (EBIT). When calculating operating profit, an adjustment is made for earnings effects from purchase price allocation and, in individual cases, nonrecurring items. These items represent income and expenses that are significant in terms of their origin and amount and that do not relate to operating business. In 2010, MAN recorded gains from nonrecurring items totaling €357 million, which are reflected in EBIT, but not in operating profit. In 2009, the Group reported losses from nonrecurring items of €656 million.

### ROS

	2010	2009
%		
Commercial Vehicles	5.0	0.7
Power Engineering	11.8	13.3
<b>MAN Group</b>	<b>7.1</b>	<b>4.2</b>

In 2010, the MAN Group generated a return on sales of 7.1% (previous year: 4.2%), leveraging the positive effects of the economic recovery on the global markets. MAN Truck & Bus recorded an ROS of 2.1%, while the figure for MAN Latin America was 11.8%. MAN Diesel & Turbo achieved a return on sales of 11.7% and Renk 12.9%.

### ROCE

	2010	2009
€ million		
<b>Total equity</b>	<b>5,990</b>	<b>5,129</b>
Pension obligations <sup>1</sup>	226	160
Financial liabilities <sup>1</sup>	2,849	3,270
	<b>9,065</b>	<b>8,559</b>
Volume not funded by equity of MAN Finance	-2,075	-1,990
Marketable securities and cash and cash equivalents	-1,071	-636
<b>Capital employed by the MAN Group at December 31<sup>2</sup></b>	<b>5,919</b>	<b>5,933</b>
<b>Annual average capital employed by the MAN Group<sup>2</sup></b>	<b>5,933</b>	<b>5,933</b>
<b>Operating profit<sup>3</sup></b>	<b>1,035</b>	<b>524</b>
<b>ROCE in %</b>	<b>17.4</b>	<b>8.8</b>

<sup>1</sup> 2009 including discontinued operations

<sup>2</sup> CE definition adjusted in 2010; marketable securities and cash and cash equivalents also deducted (similar adjustment made to previous year)

<sup>3</sup> 2009 including operating profit attributable to discontinued operations of €20 million

The return on capital employed (ROCE) is the ratio of operating profit to annual average capital employed. The MAN Group's capital employed is derived from the capital side. It comprises the Group's total equity, pension provisions, and financial liabilities, less marketable securities, cash and cash equivalents, and the financing business (leasing) not covered by the equity of MAN Finance. The earnings measure also includes the operating profit or loss of discontinued operations up to the date of disposal because these activities are also funded using Group capital.

The divisions' capital employed is derived from the asset side. For the industrial business, it comprises total assets excluding certain liquid assets and tax assets, less all provisions and liabilities with the exception of financial liabilities, pension provisions, and income taxes. Effects from acquisitions relating to finite-lived tangible and intangible assets are also eliminated when calculating capital employed. Prepayments received are only deducted if they have already been used in order processing.

The MAN Group's ROCE improved from 8.8% in the previous year to 17.4%.

#### WACC

The weighted average cost of capital (WACC) represents the minimum return expected by investors on the capital provided and for the investment risk. It is calculated as the weighted average cost of equity and debt. The cost of equity is determined on the basis of the capital asset pricing model (CAPM) using an interest rate for long-term, risk-free investments plus a premium for the specific investment risk. The cost of debt is also based on an interest rate for risk-free investments plus a risk premium for long-term investments in industrial corporations.

MAN uses WACC together with other control parameters as a basis for setting ROCE requirements. The cost of capital for fiscal year 2010 is 10.0%. The new "delta to the cost of capital" measure, which was introduced as part of the variable remuneration model for MAN SE's Executive Board and is used to measure the achievement of targets as the difference between ROCE and WACC, was 7.4% in 2010.

#### ROE

Return on equity (ROE) is the ratio of earnings before tax to annual average equity.

€ million	2010	2009
MAN Group equity on December 31	5,990	5,129
Annual average MAN Group equity	5,453	5,387
Earnings before tax (EBT) <sup>1</sup>	1,060	-191
<b>ROE in %</b>	<b>19.4</b>	<b>-3.6</b>

<sup>1</sup> Earnings before tax additionally including earnings effects of discontinued operations

The MAN Group's ROE improved from -3.6% to 19.4% in fiscal 2010.

# Group Management Report

## Financial Position

### Principles and objectives of financial management

Financial management in the MAN Group is handled centrally by MAN SE, which makes available financial resources within the Group, safeguards its financial independence and liquidity at all times, and communicates with the capital markets on behalf of the entire MAN Group. MAN SE's Executive Board is responsible for the proper conduct of all financial transactions for the MAN Group and for the deployment of an appropriate financial risk management system.

The tasks and objectives of financial management are to safeguard liquidity at all times, to mitigate financial risks, and to increase MAN's enterprise value.

Suitable financing instruments, guarantee commitments, and other master agreements that enable reliable access to debt and equity markets and financial institutions are used to safeguard liquidity at all times. The prime objective is to ensure that the MAN Group enjoys the necessary financial scope at all times to finance its operating business, investments, and targeted growth plans.

The focus of efforts to mitigate financial risks to enterprise value and earnings power is on the efficient hedging of risks—mainly through the financial markets—from exchange rate and commodity price movements, interest rate changes, and measurement risks of all kinds. Additionally, counterparty and country risks, as well as collateral obtained, are actively managed.

Overall, central financial management helps increase MAN SE's enterprise value by proactively matching the Group's liquidity supply and capital structure to changing requirements, ensuring the optimum, cost-effective transfer of financial risk, and implementing efficient management processes for these tasks.

### Cash flow

The MAN Group's statement of cash flows is presented in the financial statements (see "MAN Consolidated Statement of Cash Flows"). To obtain a more meaningful analysis of the Group's financial position, the figures are classified into the Industrial Business and Financial Services. Financial Services relates to MAN Finance's sales financing activities, primarily involving the leasing of commercial vehicles to customers.

The analysis shows the development of net liquidity/net financial debt. Net liquidity/net financial debt is a Group financial control measure that is calculated as cash and cash equivalents and marketable securities, less financial liabilities.

€ million						
	MAN Group		Industrial Business		Financial Services	
	2010	2009	2010	2009	2010	2009
<b>Net liquidity/net financial debt at beginning of period</b>	<b>-2,634</b>	<b>-1,631</b>	<b>-822</b>	<b>468</b>	<b>-1,812</b>	<b>-2,099</b>
Cash earnings	815	396	861	431	-46	-35
Change in net capital employed in continuing operations	612	964	641	687	-29	277
Change in net capital employed in discontinued operations	-	102	-	102	-	-
<b>Net cash provided by/used in operating activities</b>	<b>1,427</b>	<b>1,462</b>	<b>1,502</b>	<b>1,220</b>	<b>-75</b>	<b>242</b>
Net cash flows from investing activities of continuing operations	-371	-2,226	-385	-2,225	14	-1
Net cash flows from investing activities of discontinued operations	-3	-358	-3	-358	-	-
<b>Net cash used in investing activities</b>	<b>-374</b>	<b>-2,584</b>	<b>-388</b>	<b>-2,583</b>	<b>14</b>	<b>-1</b>
<b>Free cash flow</b>	<b>1,053</b>	<b>-1,122</b>	<b>1,114</b>	<b>-1,363</b>	<b>-61</b>	<b>241</b>
<b>Cash flow from net liquidity/net financial debt financing activities</b>	<b>-40</b>	<b>-325</b>	<b>-71</b>	<b>-384</b>	<b>31</b>	<b>59</b>
<b>Net change in net liquidity/net financial debt</b>	<b>1,013</b>	<b>-1,447</b>	<b>1,043</b>	<b>-1,747</b>	<b>-30</b>	<b>300</b>
Other changes in net liquidity/net financial debt	-157	241	-141	254	-16	-13
Change in net liquidity/net financial debt of discontinued operations	-	203	-	203	-	-
<b>Net liquidity/net financial debt at end of period</b>	<b>-1,778</b>	<b>-2,634</b>	<b>80</b>	<b>-822</b>	<b>-1,858</b>	<b>-1,812</b>

Cash earnings in the MAN Group increased to €815 million due to earnings-related factors. The Industrial Business generated cash earnings of €861 million, after €431 million in the previous year. In addition, the MAN Group's net capital employed improved by €612 million (previous year: €1,066 million). This is due to the substantial decline in inventories, better receivables management, and higher liabilities relating to an increase in business. This led to a positive cash flow from operating activities of €1,502 million in the Industrial Business and €1,427 million in the MAN Group as a whole.

Net cash used in investing activities amounted to €374 million compared with €2,584 million in the previous year. In 2009, this item was dominated by the acquisition of MAN Latin America and the shares of Sinotruk (total of €-2.2 billion). Adjusted for these portfolio measures, net cash used in investing activities in the previous year amounted to €335 million.

The MAN Group generated free cash flow of €1,053 million in the past fiscal year. The Industrial Business recorded free cash flow of €1,114 million compared with €-1,363 million in the previous year.

Net cash provided by/used in financing activities includes the dividend payment of €40 million (previous year: €297 million).

<b>Free cash flow by business area</b>		
€ million		
	<b>2010</b>	<b>2009</b>
Commercial Vehicles	552	792
Power Engineering	763	138
Others/Consolidation	-262	-2,052
<b>MAN Group</b>	<b>1,053</b>	<b>-1,122</b>

Free cash flow in the Commercial Vehicles business area totaled €552 million. €484 million of this was attributable to the operating commercial vehicles business at MAN Truck & Bus, while Financial Services negatively impacted cash flow by €61 million. MAN Latin America generated free cash flow of €129 million. While free cash flow at MAN Latin America virtually matched the prior-year level and is €50 million above the 2009 figure in the remaining commercial vehicles business, Financial Services recorded a €302 million decline in its free cash flow. This is mainly due to the increase in the volume of financing following the economic recovery in the year under review.

At €763 million, free cash flow in the Power Engineering business area improved by €625 million on 2009. This is primarily attributable to MAN Diesel & Turbo, which saw a clear improvement of around €250 million in its net capital employed, in particular through the reduction of inventories.

Compared with the previous year's figure (€2,634 million), the MAN Group's net financial debt decreased by €856 million to €1,778 million. The Industrial Business saw its net financial debt improve by €902 million from €822 million as of December 31, 2009, to become net liquidity of €80 million. Financial Services maintained its net financial debt from refinancing its business (€1,858 million) at the prior-year level (€1,812 million).

The MAN Group's net financial debt is composed of cash and cash equivalents of €1,057 million (previous year: €502 million) and marketable securities of €14 million (previous year: €134 million), less financial liabilities of €2,849 million (previous year: €3,270 million). The €435 million year-on-year increase in the MAN Group's cash and cash equivalents and marketable securities relates mainly to the positive development of free cash flow. Additionally, financial liabilities were reduced by €421 million compared with 2009. This results primarily from the repayment of the matured bond in the amount of €240 million issued by MAN SE in December 2003 via MAN Financial Services plc, Swindon/United Kingdom, the repayment of the variable-rate component of a promissory note loan in the amount of €121 million, and additional specific measures to reduce financial liabilities.

## MAN Group funding

The MAN Group funded its operating business activities in 2010 to a large extent from cash flow from operating activities. In addition to bilateral lines with financial institutions, a variable-rate syndicated credit line commitment by a syndicate of 23 banks in the amount of €1.5 billion is available for debt funding until December 2015. This line was agreed in December 2010 and replaces the previous syndicated credit line that ran until December 2011 and that has therefore been discontinued. The latter syndicated credit line was reduced by €500 million in July 2010 to €1.5 billion and was never drawn down during its term. Nor had the current line that expires in 2015 been utilized as of December 31, 2010.

Another component of the MAN Group's funding is its access to the capital markets. In 2009, MAN SE launched an EMTN program of which €1.5 billion has currently been utilized through the issue of a bond in 2009 in two tranches expiring in 2013 and 2016 and a fixed interest rate of 5.375% and 7.25% respectively. A bond issued by MAN SE in December 2003 via MAN Financial Services plc, Swindon/United Kingdom, was repaid at maturity in the amount of €240 million in December 2010.

The variable portion of a promissory note loan in the amount of €121 million was repaid prior to maturity in October 2010. Until repayment, this tranche bore an average interest rate of 3.92% p.a. The fixed-interest component of the promissory note loan in the amount of €49 million and an interest rate of 5.056% expiring in 2012 continues to exist. In addition, the Group has issued a promissory note loan in the amount of €30 million expiring in 2019 (amortizing), which bears a fixed interest rate of 6.76%.

The MAN Group also uses asset-backed financing arrangements, in particular to refinance its financial services business.

In April 2010, Standard & Poor's lowered MAN's long-term rating from A- to BBB+ with a stable outlook and again confirmed this rating in December 2010. The A3 rating with a stable outlook awarded by Moody's was confirmed in September 2010.

The following table shows MAN's current credit ratings:

Rating agency	Long-term	Short-term
Standard & Poor's	BBB+ / Stable	A-2
Moody's	A3 / Stable	P-2

For equity-based financing, the Executive Board has been granted several authorizations by MAN SE's Annual General Meeting, subject to the consent of the Supervisory Board. These include authorized capital of €188 million, corresponding to 50% of the share capital, which enables the Executive Board to implement a capital increase against cash and/or noncash contributions. Additionally, the Executive Board can issue convertible bonds or bonds with warrants up to an aggregate principal amount of €2.5 billion. For further information on the authorizations, see "Share capital, authorized and contingent capital, purchase of own shares."

Material agreements of the Company that are subject to a change of control upon a takeover bid:

Under the agreed syndicated credit line amounting to €1.5 billion, each syndicate member can demand immediate repayment of its portion if one or more natural or legal persons (with the exception of Volkswagen AG or a majority held direct or indirect subsidiary of Volkswagen AG) either individually or collectively obtain control of MAN SE or acquire the majority of voting rights in MAN SE.

The promissory note loans issued in the amount of €79 million can be terminated with immediate effect if one or more persons acting in concert acquire the majority of voting rights in MAN SE.

Repayment of the €1.5 billion bond can be demanded if one or more persons acting in concert acquire more than 50% of the voting rights in MAN SE and, as a result, the Company's rating is downgraded to noninvestment grade within 120 days.

## Asset and capital structure

€ million	MAN Group		Industrial Business		Financial Services	
	2010	2009	2010	2009	2010	2009
Property, plant, and equipment, and intangible assets	3,978	3,772	3,974	3,766	4	6
Investments	2,136	1,723	2,131	1,693	5	30
Assets leased out	1,755	1,433	1,111	896	644	537
Income taxes	1,292	989	1,264	969	28	20
Inventories	2,852	3,037	2,785	2,989	67	48
Trade receivables	2,265	2,202	1,936	1,896	329	306
Finance lease receivables	1,050	1,096	–	–	1,050	1,096
Assets held for sale	139	139	139	139	–	–
Other noncurrent and current assets	893	868	859	823	34	45
Cash and cash equivalents	1,071	636	1,031	589	40	47
<b>Total assets</b>	<b>17,431</b>	<b>15,895</b>	<b>15,230</b>	<b>13,760</b>	<b>2,201</b>	<b>2,135</b>
Total equity	5,990	5,129	5,864	4,984	126	145
Pension obligations	226	160	225	159	1	1
Financial liabilities	2,849	3,270	1,993	2,238	856	1,032
Intragroup financing	–	–	–1,042	–827	1,042	827
Provisions	2,118	1,860	2,114	1,857	4	3
Prepayments received	762	913	759	908	3	5
Income taxes	1,383	1,116	1,351	1,090	32	26
Trade payables	1,981	1,368	1,882	1,319	99	49
Other noncurrent and current liabilities	2,122	2,079	2,084	2,032	38	47
<b>Total equity and liabilities</b>	<b>17,431</b>	<b>15,895</b>	<b>15,230</b>	<b>13,760</b>	<b>2,201</b>	<b>2,135</b>

## Industrial Business

After focusing on acquisitions in 2009, investments primarily concentrated on property, plant, and equipment, and intangible assets in fiscal 2010. Key areas were replacement and maintenance investments as well as measures to improve productivity and quality at various sites. The increase in investments by €438 million is due mainly to the reversal of the impairment loss on the interest in Scania in the amount of €357 million. See the "Notes to the Consolidated Financial Statements" for further information.

The €215 million rise in assets leased out relates primarily to the initial consolidation of EURO-Leasing. See the "Notes to the Consolidated Financial Statements" for further information. The change as against 2009 also reflects the growth in the volume of sales with buyback obligations at MAN Truck & Bus in the course of the year.

Inventories totaled €2,785 million at the end of the fiscal year. The decline in new and used vehicles in particular is attributable to the recovery in the European commercial vehicles market. Inventories at MAN Diesel & Turbo decreased due to the discontinuation of production in Fredrikshavn as well as targeted working capital management in the Engines & Marine Systems strategic business unit and in the After Sales business. Prepayments received fell by €149 million. This change resulted mainly from business development at MAN Diesel & Turbo.

Financial liabilities declined by €245 million year-on-year. This relates primarily to the repayment of the variable-rate component of a promissory note loan in the amount of €121 million, and additional measures to reduce financial liabilities.

Trade payables increased by €613 million compared with the previous year due to volume-related factors.

Equity in the Industrial Business rose by €880 million as against December 31, 2009. This change resulted mainly from the profit generated in 2010. Despite the simultaneous increase in noncurrent assets, in particular due to the reversal of the impairment loss on the

Scania investment, the higher equity led to an improvement in the ratio of equity to intangible assets, property, plant, and equipment, and investments by 5 percentage points (from 91% to 96%). The equity ratio of the Industrial Business amounted to 38.5% (previous year: 36.2%). The MAN Group's overall equity-to-assets ratio was 98% (93%), and its equity ratio was 34.4% (32.3%).

## Financial Services

At Financial Services, total assets increased from €2.1 billion to €2.2 billion because of the higher business volume. €856 million (previous year: €1,032 million) was refinanced externally, and €1,042 million (previous year: €827 million) was financed internally within the Group. The decline in external refinancing resulted mainly from the repayment of the bond issued by MAN Financial Services plc.

## Unrecognized assets

As part of the Group's off-balance sheet financing instruments, we use receivables programs to refinance the financial services business in particular. For further information, see "MAN Group funding" and the "Notes to the Consolidated Financial Statements."

In addition to the assets recognized in the consolidated balance sheet, the Group also uses unrecognized assets. These include the MAN brand, as a significant intangible asset, as well as internally developed patents, employee expertise, and the Group's customer service and sales network. Expenditures on these assets are investments in the future that safeguard market success in the coming years.

See the "Notes to the Consolidated Financial Statements" for further information in connection with various unrecognized assets under rental and lease agreements.

## Share capital, authorized and contingent capital, purchase of own shares

MAN SE's share capital is unchanged at €376,422,400. It is composed of 147,040,000 no-par value bearer shares, divided into 140,974,350 common shares and 6,065,650 nonvoting preferred shares.

Further information on the subscribed capital, the classes of shares, the authorizations of the Annual General Meeting to create Authorized Capital 2010 and to issue convertible bonds and bonds with warrants, together with the contingent capital created in this context (Contingent Capital 2010), and on the authorizations to purchase own shares granted in the year under review is contained in the following chapter.

Disclosures in accordance with sections 289 (4) and 315 (4) of the *Handelsgesetzbuch* (HGB—German Commercial Code) and explanatory report in accordance with section 176 (1) sentence 1 of the *Aktiengesetz* (AktG—German Stock Corporation Act)

### Composition of share capital, classes of shares

MAN SE's share capital is unchanged at €376,422,400. It is composed of 147,040,000 no-par value bearer shares with a notional value of €2.56 each. In accordance with Article 4 (1) of the Articles of Association, the no-par value shares are divided into 140,974,350 common shares and 6,065,650 nonvoting preferred shares. All shares are fully paid up. Under Article 4 (2) sentence 2 of the Articles of Association, shareholders may not claim delivery of physical share certificates.

All shares have the same dividend rights; however, a cumulative preferred dividend of €0.11 per preferred share is payable in advance from net retained profits to holders of preferred shares, as well as a further €0.11 per common share as a subordinate right to holders of common shares. If there are insufficient net retained profits to pay the preferred dividend, the shortfall is payable in arrears, without interest, from the net retained profits of the subsequent fiscal years before the distribution of a dividend to common shareholders.

The common shares are voting shares, while preferred shares do not generally carry voting rights. Under section 140 (2) of the AktG, this does not apply if the preferred dividend is not paid in a year, or is not paid in full, and the shortfall is not made good in the following year in addition to the full preferred dividend for that year. In such cases, preferred shareholders have voting rights until the shortfalls are made good, and the preferred shares must be included in the

calculation of any capital majority required by the law or the Articles of Association. Preferred shareholders also have voting rights in accordance with section 141 (1) and (2) sentence 1 in conjunction with (3) of the AktG, under which a consenting resolution by the preferred shareholders is required if the Annual General Meeting adopts a resolution to revoke or limit the preferred dividend or to issue preferred stock that would rank prior to or equal with the existing nonvoting preferred shares in the distribution of profit or the net assets of the Company.

The same rights and obligations attach to all shares in all other respects.

#### Restrictions affecting voting rights or the transfer of shares

Other than restrictions on voting rights for preferred shares and restrictions by virtue of statutory provisions, for instance under section 136 of the AktG, MAN SE is not aware of any restrictions on voting rights. The same applies to the transfer of shares, except for shares received by members of the Executive Board, certain managing directors, and other beneficiaries at MAN companies under the MAN Stock Program (MSP), to which lockups (vesting periods) apply. Details are contained in the Remuneration Report.

#### Shareholdings exceeding 10% of the voting rights

Under the *Wertpapierhandelsgesetz* (WpHG—German Securities Trading Act), any investor who reaches, exceeds, or falls below certain shares of the voting rights of the Company by virtue of acquisitions, disposals, or by other means, is required to notify this to the Company and the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin—Federal Financial Supervisory Authority). In accordance with section 21 (1) of the WpHG, the relevant thresholds in this respect are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% of the voting rights of the Company. Under section 28 of the WpHG, any violation of this notification obligation results in the holder being barred from exercising the corresponding voting rights for the period for which the notification obligations under section 21 (1) of the WpHG were not satisfied.

Under sections 289 (4) no. 3 and 315 (4) no. 3 of the HGB, all direct and indirect interests that exceed 10% of the voting rights must be disclosed.

Volkswagen Aktiengesellschaft notified MAN SE (MAN Aktiengesellschaft at the time) in February 2007 in accordance with section 21 (1) sentence 1 of the WpHG that the share of voting rights held by Volkswagen Aktiengesellschaft had exceeded the limit of 25% and amounted to 29.9% at that time. In addition, Porsche Automobil Holding SE and its controlling shareholders notified us in September 2008 in accordance with section 21 (1) of the WpHG that—because Porsche Automobil Holding SE had assumed control of Volkswagen AG—Volkswagen AG's 29.9% interest is also attributable to Porsche Automobil Holding SE and its controlling shareholders. In 2010, we also received notifications in accordance with section 21 (1) of the WpHG that the share of voting rights held by BlackRock, Inc. (and companies affiliated with it) exceeded the threshold of 3%. We have not been notified of, nor are we aware of, further existing direct or indirect interests in the capital of MAN SE that reach or exceed 10% of the voting rights or the relevant thresholds of the WpHG, or of any changes in the above-mentioned interests.

#### Appointment and dismissal of members of the Executive Board, amendments to the Articles of Association

The appointment and dismissal of members of the Company's Executive Board is governed by Articles 39 (2) and 46 of the SE Regulation in conjunction with sections 84 and 85 of the AktG and Article 5 of the Articles of Association. Under these provisions, the Executive Board must consist of at least two members. It falls within the responsibility of the Supervisory Board, and it is entitled to do so, to appoint the members of the Executive Board for a period of up to five years and to revoke the appointment for good cause. Members may be reappointed once or several times.

Article 59 (1) of the SE Regulation in conjunction with sections 179 et seq. of the AktG apply to amendments to the Articles of Association. Under these provisions, the Annual General Meeting may resolve to amend the Articles of Association by a majority of at least three-quarters of the share capital represented when the vote is taken. Under Article 10 (6) of the Articles of Association, the Supervisory Board is authorized to resolve amendments to the Articles of Association that affect only the wording.

### Powers of the Executive Board, in particular to issue and repurchase shares

The powers of the Executive Board are governed by Article 39 of the SE Regulation in conjunction with sections 77 et seq. of the AktG and Article 6 of the Articles of Association. These provisions require the Executive Board to manage the Company independently and to represent the Company both in and out of court.

The powers of the Executive Board to utilize the contingent and authorized capital and to issue or repurchase shares are presented in the following. The corresponding authorizations were not exercised in fiscal 2010.

### Authorized Capital 2010

The resolution dated June 3, 2005, authorizing the creation of Authorized Capital 2005, supplemented by a resolution of the Annual General Meeting on April 3, 2009, was superseded when the authorizing resolution of the Annual General Meeting dated April 1, 2010, to create Authorized Capital 2010 took effect.

The Annual General Meeting on April 1, 2010, resolved to authorize the Executive Board of the Company to increase the share capital, with the consent of the Supervisory Board, by up to €188,211,200 (=50%) by issuing common bearer shares on one or more occasions against cash contributions and/or noncash contributions in the period up to March 31, 2015 (Authorized Capital 2010).

The shareholders must generally be granted preemptive rights. However, the Executive Board is authorized, with the consent of the Supervisory Board, to disapply preemptive rights when shares are issued against noncash contributions for the purpose of acquiring companies, investments in companies, or significant assets of companies. In the case of cash capital increases, the Executive Board is also authorized, with the consent of the Supervisory Board, to disapply preemptive rights

- (i) to the extent necessary to grant the holders of convertible bonds or bonds with warrants that were or will be issued by the Company or its Group companies a right to subscribe for new shares to the extent to which they would be entitled after exercise of their conversion rights or options if they had previously exercised their conversion rights or options or if they had converted their rights in the case of a conversion obligation (antidilution provision); and/or
- (ii) if the issue price of the new shares is not more than 5% lower than the quoted market price and the shares issued in accordance with section 186 (3) sentence 4 of the AktG do not in the aggregate exceed 10% of the share capital. Shares issued or sold by direct or indirect application of this provision on the basis of other authorizations during the term of these authorizations count towards this limit until the time of utilization. Shares issued or issuable by virtue of convertible bonds or bonds with warrants or with conversion obligations issued at the time of utilization in accordance with this provision shall also count towards the above-mentioned 10% limit; and/or
- (iii) to settle any fractions needed to round the share capital; and/or
- (iv) to issue new shares against cash contributions to employees with managerial responsibility (managers) of the Company and/or of Group companies in respect of a proportion of Authorized Capital 2010 of up to €4,000,000. It may also be stipulated that the contribution to be paid is covered in accordance with section 204 (3) of the AktG.

Apart from the issue of shares to employees with managerial responsibility while disapplying preemptive rights, the authorization is restricted to the extent that, after the authorization is exercised, the total shares issued under Authorized Capital 2010 and/or under Contingent Capital 2010 while disapplying preemptive rights may not exceed 20% of the share capital existing at the time the authorization took effect (= €75,284,480) or—if lower—the share capital existing at the time the authorization was utilized. Further details are governed by Article 4 (4) of the Articles of Association.

#### Issuance of convertible bonds and/or bonds with warrants, Contingent Capital 2010

The resolution dated June 3, 2005, authorizing the creation of Contingent Capital 2005, supplemented by a resolution of the Annual General Meeting on May 10, 2007, was superseded when the authorizing resolution of the Annual General Meeting dated April 1, 2010, to create Contingent Capital 2010 to issue convertible bonds and/or bonds with warrants took effect.

By way of a resolution of the Annual General Meeting dated April 1, 2010, the Company's Executive Board was authorized, with the consent of the Supervisory Board, to issue convertible bonds and/or bonds with warrants—hereinafter referred to collectively as “bonds”—of MAN SE in the aggregate principal amount of up to €2.5 billion on one or more occasions until March 31, 2015, and to grant the bondholders options or conversion rights or to establish conversion obligations on new common bearer shares of MAN SE with a notional interest in the share capital of up to €76,800,000 (approximately 20%) as specified in greater detail by the option or conversion terms. The bonds are issuable against cash contributions.

The authorization also includes the option to guarantee bonds issued by other Group companies and to grant shares of MAN SE to settle the conversion rights or options or conversion obligations conveyed by these bonds. Furthermore, the authorization allows the Executive Board, with the consent of the Supervisory Board, to define the additional terms of the bonds, in particular the interest rate, issue price, duration and denomination, the subscription or conversion ratio, the option or conversion price, and the option or conversion period, or to do so in consultation with the governing bodies of the issuing Group companies.

The bonds must be offered for subscription by the shareholders. However, the Executive Board is also authorized, with the consent of the Supervisory Board, to disapply preemptive rights

- (i) to the extent that the issue price of the bond is not materially lower than its theoretical market value calculated by recognized financial techniques. In addition, the disapplication of preemptive rights within the meaning of section 186 (3) sentence 4 of the AktG only applies to bonds with rights to shares with a notional interest in the share capital that does not in the aggregate exceed 10% of the share capital. Shares issued, sold, or issuable by direct or indirect application of this provision on the basis of other authorizations during the term of this authorization count towards this limit until the time of utilization;
- (ii) to the extent that this is necessary to settle fractions that result from the subscription ratio;
- (iii) to grant the bondholders with existing conversion rights/options on, or obligations to convert bonds to, shares of the Company, preemptive rights to the extent to which they would be entitled if they had previously exercised their conversion rights or options or if they had converted their rights in the case of a conversion obligation, in order to prevent dilution of the economic value of these rights.

The authorization to issue convertible bonds or bonds with warrants or with conversion obligations is restricted to the extent that, after the conversion rights/options or the conversion obligations are exercised, the total shares issuable while disapplying preemptive rights under Contingent Capital 2010 and/or issued under Authorized Capital 2010—apart from the issue of shares to employees with managerial responsibility while disapplying preemptive rights—may not exceed 20% of the share capital existing at the time the authorization took effect (= €75,284,480) or—if lower—the share capital existing at the time the authorization was utilized.

At the same time, the Annual General Meeting on April 1, 2010 resolved to contingently increase the share capital by up to €76,800,000, composed of up to 30,000,000 common bearer shares. The contingent capital increase will only be implemented to the extent that the holders of convertible bonds or bonds with warrants or of conversion obligations issued for cash consideration by MAN SE or its Group companies by virtue of the authorizing resolution of the Annual General Meeting on April 1, 2010 exercise their conversion rights or options or settle their conversion obligations, and provided that other forms of settlement are not used. The new shares carry dividend rights for the first time for the fiscal year in which they are issued (Contingent Capital 2010).

### Share repurchase

The resolution dated April 3, 2009, to purchase the Company's own shares was superseded when the authorizing resolution of the Annual General Meeting on April 1, 2010, to purchase the Company's own shares took effect.

The resolution of the Annual General Meeting on April 1, 2010 authorized the Executive Board to purchase common and/or nonvoting preferred shares of the Company, with the consent of the Supervisory Board, on one or more occasions until March 31, 2015 up to a maximum total amount of 10% of the share capital. Together with other treasury shares held by the Company or attributable to the Company in accordance with sections 71d and 71e of the AktG, the shares purchased by virtue of this authorization may not account for more than 10% of the existing share capital at any time. The shares may also be purchased by other Group companies and/or third parties for the account of MAN SE or other Group companies.

The shares may be purchased on the stock exchange or by means of a public purchase offer to the holders of the class of shares concerned. If the shares are purchased on the stock exchange, the purchase price (net of transaction costs) may not exceed or fall below the price for the relevant class of shares determined by the opening auction on the trading day in Xetra trading (or in a comparable successor system) by more than 10%. In the case of a public purchase offer, the bid price or the bid price range per share (net of transaction costs) may not exceed or fall below the average price for the relevant class of shares determined by the closing auction in Xetra trading (or in a comparable successor system) on the three market days after the date of the public announcement of the offer by more than 10%. The purchase offer or the invitation to submit such an offer may entail additional conditions. If the total stock tendered exceeds the volume of the purchase offer, it must be accepted on a proportionate basis. The terms of the offer may provide for preferred acceptance of small numbers of shares to the extent provided by law, but in any case up to no more than a maximum of 100 shares tendered per shareholder. Additional details and conditions relating to the offer may be established in the conditions of the offer.

The Executive Board has been additionally authorized, with the consent of the Supervisory Board, to use purchased common shares of the Company for all purposes permitted by law in addition to sale on the stock exchange or by a public offer to all shareholders, and to disapply shareholders' preemptive rights. This applies in particular

- (i) if the purchased common shares are sold at a price that is not materially lower than the quoted market price; and/or
- (ii) to the extent that they are used as consideration in a business combination or to acquire companies or investments in companies or assets of companies; and/or
- (iii) to the extent that they are used to settle options or conversion rights or conversion obligations established by the Company or a Group company when bonds were issued. The shares transferred by virtue of this authorization may not in the aggregate exceed 10% of the share capital where they are used to settle conversion rights and options or conversion obligations established in corresponding application of section 186 (3) sentence 4 of the AktG. Shares issued or sold by direct or indirect application of this provision during the term of this authorization shall count towards this limit until the time of utilization. Shares issued or issuable by virtue of convertible bonds or bonds with warrants or with conversion obligations issued at the time of utilization in accordance with this provision shall also count towards this limit; and/or
- (iv) to the extent that the common shares are used to settle stock bonus commitments to employees with managerial responsibility (managers) of the Company and/or of Group companies.

The Annual General Meeting on April 1, 2010, further authorized the Executive Board to redeem the Company's own common shares and/or nonvoting preferred shares with the consent of the Supervisory Board, but without any further resolution by the Annual General Meeting.

#### Material agreements of the Company that are subject to a change of control following a takeover bid

As already described above in the "MAN Group funding" section, MAN SE has entered into various material agreements that are subject to a change of control.

Right: Cutting-edge turbocharger technology for large-bore diesel engines  
Left: A steam turbine  
Bottom: Top MAN models at the IAA 2010 in Hanover



# Group Management Report

## Research and Development

Our goal of being the technology leader requires long-term research and development (R&D) activities. When defining key future R&D themes, MAN focuses strongly on the requirements imposed by megatrends in the transportation and energy sectors:

- An enormous increase in freight transportation is expected in the coming years. For example, the traffic volume of heavy trucks is forecast to grow by 58% in the period from 2010 to 2025. However, the rise in global freight transportation is also expected to lead to a greater need for propulsion systems in the marine segment.
- MAN plays an active role in reducing pollutants and emissions. For example, the emission standard for trucks will be further tightened from 2014 with the introduction of Euro VI in Europe. However, a clear trend is also emerging with regard to marine engines. A directive designed to almost completely eliminate emissions containing sulfur at European ports came into force in 2010, and will ultimately be extended to cover all European waters from 2015.
- MAN expects further increases in transportation and energy costs in the medium and long term, driven by high prices for oil and other resources.
- Despite the high safety standards met by today's fleet of trucks, the need for traffic safety will grow continuously in future.
- The trend towards cutting pollution in inner cities is reflected in the introduction of ecozones, among other things.

The need to reduce greenhouse gas emissions is an incentive for MAN to research alternative drive technologies and to push the energy efficiency of its products further towards their physical and technological limits. After several years of in-depth research and testing, MAN's hybrid drive—a pioneering alternative drive technology featured in the MAN Lion's City hybrid bus—went into series production in time for the 2010 International Commercial Vehicles Motor Show (IAA). This innovative city bus is more ecological and economical and much more efficient than the most state-of-the-art conventional diesel city bus. The MAN Lion's City Hybrid consumes up to a third less fuel than a conventional model and can therefore reduce CO<sub>2</sub> by up to 30%. Braking energy is recovered with a very high degree of efficiency and extremely low losses to allow the bus to start quietly and without emitting any exhaust gases.

The greatest savings potential in the long-distance trucks segment is offered by improved aerodynamics. MAN studies show that, in the case of a standard 40 t semitrailer tractor, a new, aerodynamically designed tractor and trailer can reduce fuel consumption and therefore CO<sub>2</sub> emissions by up to 25%. Savings of this order would either be impossible or could only be achieved at substantial expense in other efficiency areas. However, this new design would require amending certain statutory registration rules within the EU. MAN is thinking beyond these limits and presented a truck study with a pioneering new design at the 2010 IAA. The MAN Concept S's streamlined design distinguishes it completely from the cubic exterior of conventional trucks. A drag coefficient (cD value) of around 0.3 gives the MAN Concept S aerodynamic figures that are otherwise only achieved by state-of-the-art passenger limousines.

When it comes to saving fuel and emissions, however, MAN is also looking beyond the possibilities offered purely by vehicle and drive technologies. The Company expects to make further progress by strategically using intelligent traffic management resources

(car-to-car communication: warning the driver about the end of a traffic jam or an obstacle; traffic management: controlling speed according to traffic light phases). In cooperation with efficient traffic management partners, MAN aims to intelligently network road users with guidance systems that are designed to make the traffic of the future even more efficient.

Reducing emissions is also a key issue in the products manufactured by the Power Engineering business area. The main focus here is on cutting nitrogen oxides and sulfur content. In cooperation with partners, MAN is developing systems to filter pollutants from exhaust gas. As with its commercial vehicles, MAN pursues a dual exhaust gas strategy for its large-bore diesel engines. Engine exhaust gas recirculation is especially suitable for ships that mostly operate in coastal regions and must meet strict emission requirements. In contrast, the Company's selective catalytic reduction technology entails treating the exhaust gases in a catalytic converter, reducing the emission of nitrogen oxides (NOx). Using this method, only nitrogen and water vapor are emitted from the funnel.

In the large-bore diesel engines segment, MAN also uses renewable fuels such as rapeseed, soya bean, and palm oil, as well as old fat (cooking fat) or animal fats. However, these substances have a negative effect on the life of the injection systems and on engine performance. Compared with previous heavy oil-powered operation, performance with biofuels is around 5% lower. For ethical reasons, thermal and electrical energy generation should only use sustainable raw materials that do not compete directly with food production. As a result, MAN's research and development work is currently focusing on jatropha, African palms, and special algae.

In 2008, MAN Diesel & Turbo launched an initiative entitled The Green Ship of the Future together with the Danish shipping company A.P. Møller-Mærsk Group, Odense Steel Shipyard, and Aalborg Industries. The project's goal is to reduce CO<sub>2</sub> emissions by 30% and nitrogen and sulfur oxides by 90%. The initiative uses both conventional and new technologies. The Green Ship of the Future focuses mainly on large two-stroke engines such as those deployed in big ocean-going container ships and tankers. The project received the Sustainable Shipping organization's International Environmental Award for the most environmentally friendly transportation initiative.

These activities show that sustainability, protecting the environment, reducing emissions, and cost-effectiveness have long been central goals pursued by MAN. The Company's products are based primarily on innovative engineering. Across all divisions, this makes them dynamic and reliable premium products that are leaders in their field. MAN's willingness to embrace new concepts has not only been a key success factor in the development of its latest products, but also ensures its ability to master new challenges and guarantees the Group's future success.

MAN invests a significant proportion of its revenue each year in R&D to reflect the particular importance of these activities. In 2010, capital expenditure in this area was €626 million, or 4.3% of revenue. €469 million, or 75% of R&D expenditures, was internally funded.

Funds for order-specific R&D activities and for publicly subsidized projects amounted to €157 million. Around 43% of internal funds were invested in basic research and the development of new products.

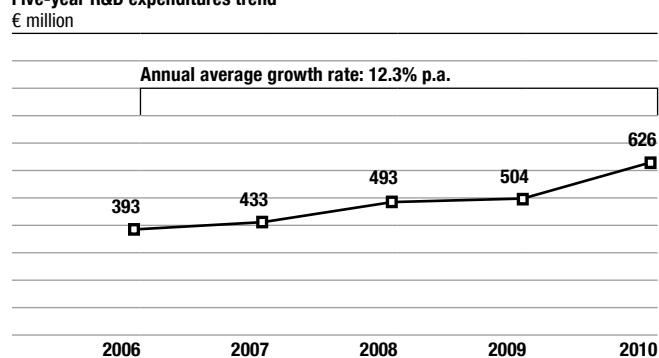
3,944 people were employed in research and development in 2010, compared with 3,791 in the previous year.

€ million	2010	2009
<b>R&amp;D expenditures</b>	<b>626</b>	<b>504</b>
R&D expenditures of the manufacturing divisions (% of revenue)	4.3	4.2
Internally funded R&D	469	382
R&D employees (annual average)	3,944	3,791

**R&D expenditures by business area**

€ million	2010	2009
Commercial Vehicles	328	237
Power Engineering	313	267
Consolidation	-15	-
<b>MAN Group</b>	<b>626</b>	<b>504</b>

**Five-year R&D expenditures trend**



Like-for-like data for all years, excluding discontinued operations

# Group Management Report

## Capital Expenditures

Capital expenditures in fiscal 2010 totaled €396 million, compared with €2,303 million in the previous year. The high prior-year figure is due mainly to the acquisitions of MAN Latin America and Sinotruk. Excluding the acquisitions, MAN invested €366 million in property, plant, and equipment and intangible assets in the previous year. The proportion of other capital expenditures made outside Germany was 33% or €131 million.

Investments in the Commercial Vehicles business area totaled €283 million in 2010 compared with €229 million in the previous year. MAN Truck & Bus made the necessary replacement and maintenance investments and invested in enhancing productivity and quality, leveraging growth potential, and developing new products (Euro VI). The focus of investing activities was on the Munich and Nuremberg sites. MAN Latin America's capital expenditures were driven by the Euro V emission standard, the technical integration of products and components with MAN Truck & Bus, and leveraging joint growth potential through the announced cross-selling of products, as well as investment in its Resende production site.

Investments in the Power Engineering business area amounted to €108 million in 2010 as against €161 million in the previous year. MAN Diesel & Turbo made replacement and maintenance investments and invested in enhancing the efficiency of its production sites and in its after-sales network. Renk invested primarily in testing systems for wind power gear units at the Rheine site.

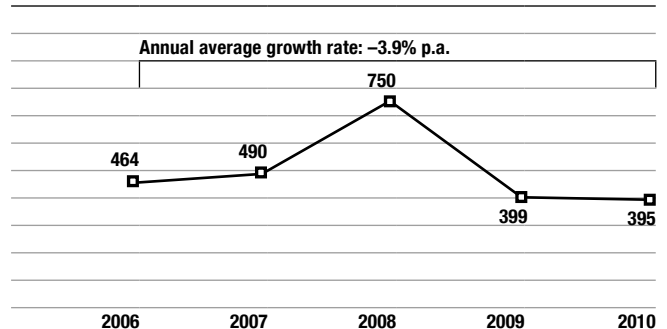
Capital expenditures		
€ million		
	2010	2009
Property, plant, and equipment and investment property	235	283
Intangible assets	156	83
Investments	5	1,937
<b>Total</b>	<b>396</b>	<b>2,303</b>
of which: acquisition of MAN Latin America less cash and cash equivalents	–	1,333
of which: acquisition of Sinotruk	1	567
of which: Scania share purchase	–	4
of which: other capital expenditures	395	399
of which: Germany	264	280
of which: other countries	131	119
Depreciation, amortization, and impairment <sup>1</sup>	368	360
Capital expenditure ratio in % <sup>2</sup>	107	111

<sup>1</sup> Excluding earnings effects from purchase price allocations (2010: €99 million, 2009: €62 million) and in the previous year excluding write-downs of investments of €382 million

<sup>2</sup> Excluding the acquisition of MAN Latin America, Sinotruk, and the Scania shares

Capital expenditures by business area		
€ million		
	2010	2009
Commercial Vehicles	283	229
Power Engineering	108	161
Others/Consolidation	5	1,913
<b>MAN Group</b>	<b>396</b>	<b>2,303</b>

### Five-year capital expenditure trend\*



\* 2006 to 2009 excluding Scania share purchase  
2009 and 2010 excluding acquisition of MAN Latin America and Sinotruk

Like-for-like data for all years, excluding discontinued operations

# Group Management Report

## Procurement

<b>Cost of materials by business area</b>		
€ million		
	<b>2010</b>	<b>2009</b>
Commercial Vehicles	6,329	4,485
Power Engineering	1,853	1,949
Others/Consolidation	-87	-98
<b>MAN Group</b>	<b>8,095</b>	<b>6,336</b>

<b>Cost of materials</b>		
in % of revenue		
	<b>2010</b>	<b>2009</b>
Commercial Vehicles	60	57
Power Engineering	44	46
Others/Consolidation	-	-
<b>MAN Group</b>	<b>55</b>	<b>53</b>

At around €8.1 billion (previous year: €6.3 billion), the MAN Group's procurement volume is approximately 55% of revenue. As a result of MAN's international growth strategy in the BRIC countries, the Group's purchasing activities are continuing to focus on global procurement markets. Despite the global economic recovery, which was characterized by growing demand for commodities and primary materials and therefore increased supplier prices, the MAN Group's purchasing units largely maintained prior-year price levels in 2010.

Selecting and monitoring suppliers is extremely important due to the increased insolvency risk in the supplier industry, a factor that is relevant for MAN. In this continued difficult environment, a preventive risk monitoring system enables continuous supervision of suppliers by the Purchasing function with the aim of initiating measures at an early stage to reduce losses.

To generate synergies through bundling effects, non-production-related requirements starting from a defined amount are procured centrally and by commodity group by a Group-wide Purchasing function. Category managers provide market expertise and specialist knowledge for individual material groups. This gives the MAN Group a single face to the market and therefore a stronger market presence.

Complying with orderly external procurement transactions that leverage economic market opportunities and ensuring fair and sustainable relationships with suppliers and business partners requires clearly defined rules. This is why in 2010 the Group established binding rules of conduct and principles governing procurement in the form of a Group-wide purchasing policy.

The MAN Group's products are leaders in their field and as such guarantee the success of the MAN brands. They are characterized by their reliability, cost-effectiveness, and innovative design, as well as by technical expertise, high quality and cost awareness. Such achievements are not possible without first-class partners in the supplier industry. The Commercial Vehicles business area recognizes their contribution by presenting up to 10 suppliers with the Trucknology® Supplier Award each year.



Top: MAN TGX in the Brazilian Resende plant  
Right: Testing large-bore diesel engines in the Augsburg plant  
Bottom: Truck production in Munich



# Group Management Report

## Employees

Employees at December 31*		
	2010	2009
Germany	27,354	26,768
Other countries	20,315	20,975
<b>Total</b>	<b>47,669</b>	<b>47,743</b>
Other countries in %	43	44

Employees by business area at December 31*		
	2010	2009
Commercial Vehicles	33,020	33,029
Power Engineering	14,337	14,414
Other	312	300
<b>MAN Group</b>	<b>47,669</b>	<b>47,743</b>

\* Including subcontracted employees

### Headcount

As of December 31, 2010, the MAN Group employed 47,669 people including subcontracted employees; this figure almost matches that of December 31, 2009 (47,743). Our foreign companies, whose headcount fell by 660 (3%) to 20,315, account for 43% of our employees (previous year: 44%). In Germany, the Group's workforce totaled 27,354 at the end of the year, up 586 (2%) year-on-year. The MAN Group had 1,976 subcontracted employees on December 31, 2010. This represents an increase of 333 or 20% as against the previous year (1,643). The Group's permanent staff declined by 407 from 46,100 in the previous year to 45,693 on December 31, 2010. At 2,035, the number of employees with fixed-term contracts at December 31, 2010 was up slightly on the previous year (2,002).

### Leadership Culture—core qualities for successful employee management

Today, the Group, its managers, and its employees constantly face new challenges: Successful change management is required simply to deal with a market environment that is altering due to the economic and financial crisis. However, only when managers have the confidence of their staff can they successfully communicate and implement changes.

Core qualities for successful employee management at MAN are competence, transparency, commitment, and behavior. They apply worldwide. The MAN Leadership Culture gives all managers clear guidance on how to achieve this working environment and how they themselves should behave and develop. The goal is to create a trusting leadership culture—which is the basis for excellent performance by each employee and therefore for MAN's success.

From 2010, the four management qualities mentioned above have been established in annual employee appraisals for MAN managers and the extent of their implementation is being measured.

### Management training

MAN has a partnership with the Saïd Business School of the University of Oxford and the WHU—Otto Beisheim School of Management to draw up an innovative continuous professional development program for its managers. In doing so, the Company aims to ensure that, in future, MAN managers with a strong strategic focus are available for international management positions. The cooperation produced the Executive Management Program (EMP), which is aimed at MAN's senior managers, and the General Management Program (GMP), which is open to high potentials in management positions. Both programs reflect the Group's internationalization and the related requirements placed on management. Participants are supported by mentors and coaches during the continuous professional development program. Project work is also a key element of the programs.

The European Foundation for Management Development (EFMD) presented the MAN Group with the “EFMD Excellence in Practice Award 2010” in the Executive Development category.

### Occupational pension system

Retirement provision that goes beyond the statutory pension systems is usually essential for MAN Group employees to ensure the standard of living to which they are accustomed when they retire. The MAN Group therefore contributes to its employees' retirement provision by granting pension commitments and similar benefits that are structured to country-specific and market requirements.

Once their active working life finishes, employees in Germany receive benefits provided by a modern and attractive occupational pension system that constitute a key element of MAN's remuneration policy. These benefits offer a reliable additional income on retirement and also protect them against the risk of permanent disability or death during their active employment. Employees receive employer contributions that are tied to their remuneration and can make additional provision through deferred compensation—which is employer-subsidized for staff subject to collective bargaining agreements. The employer- and employee-funded contributions plus returns on capital market investments allow staff to accumulate plan assets during their active employment that are paid out as a lump sum or in installments on retirement. The risk of the investments is gradually reduced as employees get older (lifecycle concept). The performance of the plan assets is directly linked to the capital markets and is determined by a basket of indices and other suitable parameters.

Depending on country-specific practices, foreign employees receive standard market contributions to pension commitments granted by third parties or investment fund savings plans, or commitments under defined benefit pension plans, that are still predominantly tailored to providing lifelong pensions.

### Short-time working in the MAN Group, in particular at MAN Truck & Bus

MAN Truck & Bus in particular was still affected by the consequences of the financial and economic crisis in the first half of the year. However, in fiscal 2010 the company was able to continuously reduce short-time working that had been introduced in 2009. The Steyr and Nuremberg sites returned to full capacity utilization from the middle of the year, allowing short-time working to be discontinued.

Short-time working was also fully discontinued at the other plants and the central functions at the end of the year. This means that MAN Truck & Bus has now successfully left behind the financial and economic crisis and is well positioned for future challenges with a strengthened workforce. This is also a result of the training measures implemented in cooperation with the *Bundesagentur für Arbeit* (German Federal Labor Agency) during the period of short-time working.

# Group Management Report

## Corporate Responsibility

As one of Europe's leading engineering groups, the MAN Group makes a value contribution to meeting global challenges such as climate change, globalization, demographic trends, and urbanization. These trends are being reinforced by the rapid increase in the size of the global population. Resources are becoming scarcer, while climate change will continue to drive the development of new energy supply solutions and structures. The Company expects these developments to have a major impact on transportation systems, mobility structures, and the energy infrastructure. As a result, the MAN Group is already deriving the requirements that future drive/propulsion technologies will have to meet. In other areas, too, it aims to anticipate developments, for example by addressing increasing transparency requirements from investors and analysts as well as from society.

The MAN Group attracts the attention of a wide variety of stakeholder groups: customers, business partners, employees, society, investors, and analysts. A canon of values and a clear strategy enable the Company to respond to their different needs, to strike a balance, and to mediate in the event of conflicts of interest.

### The MAN Group's corporate responsibility strategy

The MAN Group is committed to sustainable corporate management that takes into consideration the demands placed on the Company in the areas of integration, the environment, the economy, and people, with the strategic goal of sustainable value creation. This has now been formulated in a strategy for dealing with the developments described above and with society's increasing expectations in respect of companies. The strategy was resolved by MAN SE's Management Board and entered into force in July 2010.

Corporate responsibility (CR) is therefore part of the corporate and leadership culture at MAN and drives the Company's vision of being number one in commercial vehicles and power engineering.

Sustainable value and profitable growth can only be created if the MAN Group meets its responsibility for the environment and toward its stakeholders.

The MAN Group's CR strategy is founded on good corporate governance and designed to create value for society. MAN has translated the four dimensions of its CR strategy into concrete fields of action that have been assigned priority status within the Company. The MAN Executive Board has lent added weight to these fields of action as well as to the CR roadmap that defines specific aims for all four dimensions up to 2015.

### Fields of action

**Integration:** MAN uses CR to sharpen its competitive edge. This aim is specifically supported by the integration of CR into the divisions' strategies and operating processes, vocational training and continuous professional development, as well as a systematic stakeholder dialog and open communication.

MAN actively communicates its CR strategy and the related fields of action to its employees and customers. For example, MAN SE's Executive Board presented the components of the Company's CR strategy at the annual Management Summit and discussed the strategy's aims with around 500 MAN managers from 50 countries. 400 sales staff at MAN Truck & Bus from the Germany, Western and Eastern Europe, Russia, Latin America, and Middle East sales regions were schooled in CR for the 2010 International Commercial Vehicles Motor Show (IAA) in Hanover as part of the Company's Global Sales Training. A global survey of 400 stakeholders enabled MAN to better understand the expectations of the various groups and to integrate them into the Company's CR strategy. The participants were employees, customers, suppliers, and business partners in the countries in which MAN is active. The results confirmed the focus of MAN's CR strategy and its central fields of action, and provided an insight into which topics the stakeholders regard as important for MAN. Those surveyed cited the conservation of resources and climate protection as the greatest challenges.

**Environment:** By developing solutions that offer greater resource efficiency and safety, the MAN Group enables the realization of sustainable transportation concepts and future-proof energy supplies. This aim is supported by a Group-wide climate protection strategy with clear objectives that is still in development, a resource-efficient product and service portfolio, and resource efficiency in production and administration.

Resource efficiency of products plays a key role in purchases by MAN's customers. A drastic reduction in fuel consumption and CO<sub>2</sub> by diesel trucks is possible and can be implemented rapidly. This was demonstrated by a design study developed by MAN Truck & Bus that was premiered at the 2010 IAA in Hanover. The MAN Concept S's aerodynamic design alone allows it to consume up to 25% less fuel—when combined with an appropriately modified trailer—than a conventional 40 t semitrailer tractor. This represents a 25% reduction in CO<sub>2</sub> emissions. Long trucks are another alternative commercial vehicle concept that helps reduce CO<sub>2</sub>. MAN Truck & Bus will participate in a nationwide field trial of these trucks in Germany organized by the Federal Ministry of Transport.

Electromobility and hybrid technology are particularly important in urban traffic. The Lion's City Hybrid, the first MAN bus with a hybrid drive that has been in regular service in Munich and other European cities since May 2010, consumes up to 30% less fuel than a conventional city bus. This represents a CO<sub>2</sub> reduction of up to 30%. MAN is therefore helping protect the climate and cut exhaust gas and noise in downtowns. In addition, this year MAN Latin America delivered the first trucks that can be powered entirely by biodiesel (B100). When filled with pure biodiesel, the dual fuel trucks reduce CO<sub>2</sub> emissions by up to 90%.

MAN Diesel & Turbo's wind diesel and dual fuel power plants as well as the Green Ship of the Future contribute to preserving finite resources and to reducing greenhouse gases. This ship project aims to cut CO<sub>2</sub> by 30% and nitrogen and sulfur oxides by 90%.

Resource efficiency is not only an important criterion in the use of MAN products, but also in production. To ensure resource-efficient manufacture, the divisions introduced an environmental management system some time ago. A total of 19 MAN sites in Europe are certified in accordance with ISO 14001. Management systems that are based on OHSAS 18001 (Occupational Health and Safety Assessment Series) and that guarantee the occupational safety and health protection of employees have also been launched throughout the Group.

**Economy:** Business success is founded on sustainable value creation. Operating in all key regions and product segments in MAN's industry worldwide ensures the Group's lasting success. It also enables the Company to create added value for all its stakeholders. Sustainable value creation is supported by risk and crisis management as well as innovation and supplier management.

To ensure sustainability and corporate responsibility along the supply chain, the MAN Group's Purchasing function has drawn up a purchasing policy that establishes principles that promote compliance with internationally recognized human and employee rights as well as environmental protection by suppliers, for example.

**People:** Together, demographic trends and internationalization are driving the activities that position the Company as an attractive employer internationally, capable of recruiting and retaining the best minds. MAN's aim of employing the best people is supported by employer branding and talent management, diversity management, and occupational health and safety management.

MAN joined the United Nations Global Compact in December 2010. An international framework agreement was also negotiated by the International Metalworkers' Federation and the MAN Works Council. This agreement commits the MAN Group to human and employee rights. MAN launched the "Personalities Wanted" employer branding campaign to ensure the recruitment of specialist staff. The campaign allows MAN to position itself as an attractive employer in the long term. The Company has been developing young talent through its Campus Initiative for more than three years. In addition to scholarships, MAN offers students at Munich Technical University and RWTH Aachen an insight into working life through lectures series and project work.

#### The MAN Group's CR structure

The Chief Human Resources Officer is ultimately responsible for CR at MAN. The CR Manager—a position that was newly created in 2010—reports directly to the Chief Human Resources Officer. The CR Manager's main duties are strategy development and implementation. This person acts as a central point of contact for CR in the Company and is supported by the CR Excellence Team in which experts from the Group are represented. The CR Excellence Team's duties include CR reporting as well as controlling and monitoring the implementation of the strategy. MAN's Executive Board serves as the steering committee for important CR decisions.

#### CR programs and reporting

In its CR roadmap, the MAN Group has laid out how and when its goals will be attained. The roadmap is the blueprint for each year's CR program, assigning responsibilities and deadlines. From spring 2011, an annual CR Report will provide information on the achievement of the Group's aims and the development of key performance indicators. The MAN Group will prepare this report in accordance with the internationally recognized Global Reporting Initiative (GRI) guidelines and will have parts of the report for 2010 audited by an auditor.



Left: Training employees  
in Production  
Top: The 2010 IAA in Hanover  
Bottom: An MAN Lion's  
City Hybrid



# Group Management Report

## The Divisions in Detail

### MAN Truck & Bus

The recovery by the European commercial vehicles market from the effects of the financial and economic crisis dominated fiscal 2010 and led to a significant increase in order intake, revenue, and earnings at MAN Truck & Bus.

At €8.0 billion, order intake in fiscal 2010 was 54% above the prior-year level (€5.2 billion). Revenue rose by 16% from €6.4 billion in the previous year to €7.4 billion in 2010. This revenue growth and the resulting improvement in capacity utilization as well as systematic cost savings enabled MAN Truck & Bus to generate an operating profit of €158 million (previous year: operating loss of €91 million). At €85 million, Q4 was the most profitable quarter of 2010. The company's operating commercial vehicles business contributed €103 million to this figure.

<b>MAN Truck &amp; Bus</b> € million	<b>2010</b>	<b>2009</b>
Order intake	8,023	5,224
of which: Trucks	6,865	4,210
of which: Buses	1,158	1,014
Order intake (units)	67,393	37,984
of which: Trucks	61,934	33,272
of which: Buses	5,459	4,712
Revenue	7,446	6,395
of which: Trucks	6,279	5,091
of which: Buses	1,167	1,304
Vehicle sales (units)	60,649	46,767
of which: Trucks	55,166	40,535
of which: Buses	5,483	6,232
Employees <sup>1</sup>	31,284	31,519
Operating profit/loss <sup>2</sup>	158	-91
of which: Trucks	191	-89
of which: Buses	18	40
of which: Financial Services	-49	-42
ROS (%)	2.1	-1.4

<sup>1</sup> Including subcontracted employees as of December 31

<sup>2</sup> Including €-2 million from consolidation adjustments between Financial Services and Trucks/Buses in 2010

### Economic environment

Unit sales of trucks in Europe recovered from the low level of around 220,000 in 2009 to 235,000 in 2010 (+7%). MAN Truck & Bus maintained its market share of 16.8% for trucks over 6 t in 2010. The semitrailer tractors over 16 t segment recorded the highest growth. The European bus market contracted to 28,000 units (-10%). MAN Truck & Bus's market share declined from 14.8% to 13.3%. The city and intercity bus segment saw the sharpest decreases here, while the coach business picked up.

### Business developments

The Trucks business lifted its order intake from €4.2 billion in the previous year to €6.9 billion. The number of trucks ordered was up by 86% from 33,272 to 61,934. Order intake for heavy trucks rose by 110%. The United Kingdom and Russia recorded particularly strong growth. At 14%, the increase in orders in the Buses business from €1.0 billion to €1.2 billion in 2010 was equally encouraging.

In 2010, MAN Truck & Bus delivered 55,166 trucks and 5,483 buses, recording a 30% year-on-year rise (40,535 trucks, 6,232 buses) in the course of the economic recovery. Revenue amounted to €7.4 billion (previous year: €6.4 billion). Revenue in the Trucks business climbed by 23% to €6.3 billion, while Buses saw a decline in revenue by 10% to €1.2 billion.

Reducing short-time working allowed MAN Truck & Bus to flexibly adapt its production schedule to the increasing demand. For example, the average period of short-time working in production at the company's German sites was 46 days in 2010 (previous year: 85 days), and 18 days in administration (previous year: 39 days). The cost-cutting program initiated in 2008 continued undiminished in 2010.

### Operating profit

The higher volume of business enabled MAN Truck & Bus to reverse its operating loss of €91 million in fiscal 2009 to an operating profit of €158 million in 2010. This reflects income of €40 million in connection with the license granted to Sinotruk. The return on sales amounted to 2.1% (previous year: -1.4%).

The operating loss in the Trucks business from the previous year improved by €280 million to become an operating profit of €191 million, and the return on sales was therefore 3.0% (previous year: -1.7%). At €18 million, the profit generated by the Buses business was down €22 million on the previous year due to volume-related factors and the product mix. The operating loss in Financial Services amounted to €49 million (previous year: €42 million) as a result of continued high risk provisions, especially in Spain, Italy, and Russia, as these countries remain significantly affected by the financial crisis.

### Employees

As of December 31, 2010, MAN Truck & Bus had a workforce of 31,284 (previous year: 31,519). 18,616 staff were employed in Germany (previous year: 18,309), and 12,668 abroad (previous year: 13,210). The company had 2,178 vocational trainees as of December 31, 2010 (previous year: 2,115). The proportion of vocational trainees therefore amounted to 6.7%.

### Research and development

Research and development expenditures amounted to €262 million in the period under review (previous year: €211 million), or 3.5% of revenue (previous year: 3.3%). An average of 1,827 staff (previous year: 1,769) were employed by the company's research and development departments worldwide during the year.

MAN Truck & Bus is a technology leader in the international market and maintains this position by identifying future requirements at an early stage and expertly transforming them into new trailblazing solutions and products. The company's ongoing R&D program focused on continuing to increase the cost-effectiveness and environmental compatibility of commercial vehicles. The development of Euro VI engines in particular is a logical step toward transportation efficiency and sustainable mobility. MAN Truck & Bus presented pioneering commercial vehicle concepts at the IAA in Hanover, such as the Concept S truck study that attracted a high level of international attention.

MAN Truck & Bus presented the new Lion's City Hybrid bus—an innovative concept that offers greater environmental protection and cost-effectiveness in urban traffic. MAN's hybrid bus consumes up to 30% less fuel and therefore saves up to 10,000 liters of diesel per year. Munich was the first European city to put the MAN Lion's City Hybrid into service as a pre-production vehicle. Other buses of this type are being used in major European cities.

Intelligent traffic assistance systems aim to significantly reduce the risk of traffic jams and accidents on the roads in future. In 2010, MAN Truck & Bus pioneered the development of these systems using state-of-the-art research methods, such as the driving simulator developed jointly with the Chair of Automobile Engineering at Munich Technical University. Its research activities focused on increasing active safety for vehicles and traffic systems, helping drivers by providing assistance systems, and efficiently using existing transportation infrastructure.

### Capital expenditures

The division's capital expenditures of €207 million (previous year: €205 million) reflected the renewal of its product range in particular. In addition to continuous investments in the sales and service network, MAN Truck & Bus increased capital expenditure at its production sites. An automated seam sealing station was established in the cab painting line at the Munich site. The company's "Nuremberg engine development center" investment project was launched with new test beds. In spring 2010, the newly built bus delivery center began operating at the Munich site.

## Outlook

The effects of the financial and economic crisis were still clearly apparent in 2010, although signs of a sustained recovery on the commercial vehicles market emerged in the course of the year. This upturn will contribute to a continued year-on-year increase in production and unit sales figures for trucks and buses in 2011.

Global unit sales of commercial vehicles are expected to return to their pre-crisis level in 2011; sales in Western Europe are forecast to recover by 2013. The BRIC markets in particular offer new unit sales potential, although they will not grow as dynamically as in the past. The Russian market slumped dramatically in 2009, primarily due to financing problems, which means that the upturn there will be somewhat delayed. Market growth in China will in future be driven by increasing demand for heavy commercial vehicles.

Going forward, there will continue to be considerable differences between the BRIC countries and the European market environment in terms of market requirements, demand preferences, and general price acceptance. While innovation, equipment, and costs per kilometer driven will remain the key success factors for high-margin business in the European market, the BRIC countries continue to demand low-cost vehicles that meet market needs.

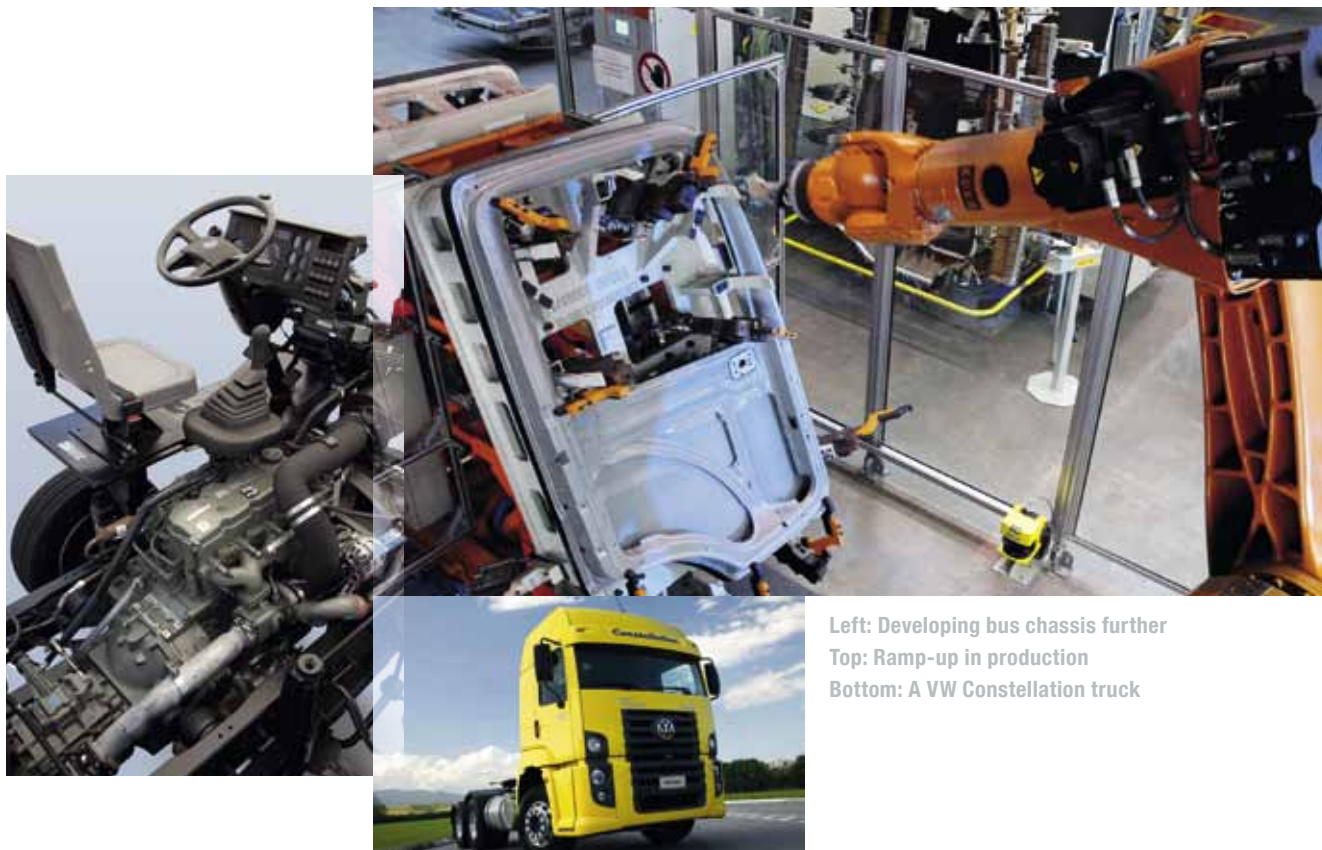
MAN Truck & Bus's investments in 2011 will also reflect the improved environment and will support the company's strong market position and its internationally attractive product portfolio for vehicles and services as well as its long-term growth targets.

In the next three years, the company's Plauen site will be expanded into a state-of-the-art production plant for exclusive NEOPLAN brand luxury coaches. Modernization and construction measures with an investment volume of €19 million will be implemented in the period to 2013 to reflect the premium nature of the NEOPLAN brand.

At the beginning of January 2010, MAN Truck & Bus announced that it had signed an agreement with Rheinmetall AG, Düsseldorf, on the formation of a joint venture for wheeled military vehicles. Rheinmetall holds a 51% stake in the new company and MAN Truck & Bus holds 49%. The first contractually agreed transaction stage was completed at the beginning of May 2010. In this first step, the two companies' wheeled military vehicles development and sales activities were combined under the umbrella of the new company. Under the second contractually agreed stage in the transaction—expected for the beginning of January 2012—the two companies' production capacities are scheduled to be integrated organizationally into the joint venture.

MAN Nutzfahrzeuge AG became MAN Truck & Bus AG on December 28, 2010. As a result, the company's name now also reflects its successful international growth strategy.

If the economic environment in the euro zone remains positive, further revenue growth of 15% is possible in 2011. Management expects a substantial increase in operating profit, and the return on sales will be significantly above 5%.



Left: Developing bus chassis further  
Top: Ramp-up in production  
Bottom: A VW Constellation truck

## MAN Latin America

MAN Latin America generated revenue of €3.1 billion in 2010, which enabled it to record the best operating profit in its history. The introduction of a third shift in Resende from the first quarter allowed the company to successfully benefit from volume growth that was driven primarily by local infrastructure investments and government incentives, as well as by the recovery of certain Latin American export markets.

<b>MAN Latin America<sup>1</sup></b>		
€ million		
	<b>2010</b>	<b>2009</b>
Order intake	3,140	1,412
Order intake (units)	65,630	35,842
Revenue	3,140	1,412
Vehicle sales (units)	65,630	35,842
Employees <sup>2</sup>	1,736	1,510
Operating profit	370	142
ROS (%)	11.8	10.1

<sup>1</sup> Included as of March 31, 2009/April 1, 2009. The order situation, revenue, earnings, and cash flow for 2009 do not include any Q1/2009 figures for MAN Latin America.

<sup>2</sup> Including subcontracted employees as of December 31

### Economic environment

The Brazilian economy was less affected by the global economic crisis than most other major economies. The government in Brazil implemented a variety of stimulus measures to ensure a rapid and stable recovery in all key market segments, and in particular in the

automotive and infrastructure sectors. For example, the incentives included tax cuts and subsidized finance for capital goods spending. Gross domestic product in Brazil grew by 7.6% in 2010.

Buoyed by the economic upturn in Brazil, the truck market increased to a total of 160,309 trucks (+43%) and 30,593 buses (+27%) in 2010. Total exports in the truck and bus market that was recovering from the global crisis amounted to 37,120 vehicles (+64%), of which 22,565 were trucks (+74%) and 14,555 buses (+50%).

### Business developments

The strong recovery on the Brazilian market enabled MAN Latin America to sell 48,608 trucks and therefore maintain its position as the country's market leader for trucks over 5 t for the eighth successive year and its market share of 29%. The Brazilian bus market is also performing positively. MAN Latin America sold 8,691 vehicles to achieve a market share of 28%, confirming its number two position in the local market.

The company's unit sales in the export markets amounted to 8,331 trucks and bus chassis, securing its market lead in the truck export business for the second successive year with a share of 29%. In the bus chassis segment, MAN Latin America reinforced its number two position with a share of exports of just under 11%.

Sales totaling 65,630 commercial vehicles in 2010 made it the best fiscal year in the company's history.

### Operating profit

Operating profit grew faster than revenue to €370 million (previous year: €142 million), which corresponds to a return on sales of 11.8%.

### Employees

At the end of 2010, MAN Latin America had a total workforce of 1,736. In addition, 4,413 employees are on the payroll of the company's partners or service providers as part of the "Consortio Modular" production system.

### Capital expenditures, research and development

A feature of MAN Latin America's "Consortio Modular" business model, in which the partner companies are also suppliers and investors, is its low capital expenditure requirement (< 2.5% of revenue) and capital employed.

Research and development expenditures in the year under review amounted to €66 million or 2.1% of revenue. An average of 410 staff (including subcontracted employees) and 110 service provider employees work in R&D.

R&D activities focused on enhancing the company's product portfolio for the truck segment that is tailored to the emerging markets, adapting buses to customer needs, efficient solutions with regard to alternative fuels, reducing emissions (Euro V), and synergy projects with MAN Truck & Bus, such as localizing the MAN D08 engine and the MAN TGX truck, as well as a joint new low-floor bus platform. MAN Latin America confirmed its technological lead in energy-efficient hybrid solutions by developing the compressed natural gas (CNG) D08 engines for city buses.

In the middle of the year, MAN Latin America established a dedicated bus development unit to support expansion in this growing segment. The initial results of this included the new low-floor bus that is adapted to reflect the latest public transportation concepts in major cities. The company also implemented various customer-driven technical modifications to existing series and enhanced the gear and engine programs.

### Outlook

The outlook for 2011 is positive, boosted by resolved infrastructure investments and the announced extension of tax breaks for truck purchases until December 31, 2011, in Brazil, MAN Latin America's largest market. The result of the presidential election points to the continuation of the current economic policy. Several support programs, including "Caminho da Escola," for which MAN Latin America sold 2,233 school buses in 2010, and "Pró-Caminhoneiro" to modernize the truck fleet and improve financing opportunities, have in most cases already been extended.

Various factors with a beneficial effect, such as the 2014 soccer World Cup, the 2016 Olympic Games, and the tapping of newly discovered oil reserves will lead to increased demand for trucks and buses in the coming years. Growth is also expected to be driven by the need to renew Brazil's aging fleet of transportation vehicles, which have an average age of over 16 years.

MAN Latin America aims to further expand its international activities, especially in developing countries. The company sees additional growth potential in exports from connections with MAN Truck & Bus's global business activities, especially in South Africa and Mexico.

New business opportunities will emerge from the launch of the TGX series in the heavy-duty segment in Latin America as an addition to the company's product range, and the integration of MAN D08 engines. The after-sales area also offers further growth potential.

Provided that the market continues to develop positively, MAN Latin America's management expects revenue growth of up to 10%. As a result, the return on sales will remain in double digits. These forecasts assume no significant change in exchange rates.



Left: A four-stroke large-bore diesel engine  
Top: Las Salinas diesel power plant on Fuerteventura  
Bottom: MAN Diesel & Turbo headquarters in Augsburg



## MAN Diesel & Turbo

### MAN Diesel & Turbo € million

	2010	2009
Order intake <sup>1</sup>	3,475	2,936
of which: Engines & Marine Systems	1,525	1,110
of which: Power Plants	812	789
of which: Turbomachinery	1,138	1,038
Revenue <sup>1</sup>	3,766	3,796
of which: Engines & Marine Systems	1,576	1,805
of which: Power Plants	839	606
of which: Turbomachinery	1,351	1,386
Employees <sup>2</sup>	12,455	12,511
Operating profit	439	500
of which: Engines & Marine Systems	333	290
of which: Power Plants	-60	52
of which: Turbomachinery	166	158
ROS (%)	11.7	13.2

<sup>1</sup> Including consolidation adjustments between the Engines & Marine Systems, Power Plants, and Turbomachinery strategic business units

<sup>2</sup> Including subcontracted employees as of December 31

The economic environment improved in fiscal 2010. As a result, MAN Diesel & Turbo's order intake amounted to €3.5 billion, exceeding the prior-year figure of €2.9 billion (+18%), but falling short of the pre-crisis level. In the Engines & Marine Systems strategic business unit in particular, the upturn in demand for transportation services has not yet led to a tangible increase in the number of engines manufactured. At €3.8 billion, revenue was roughly at the prior-year level. The order backlog decreased to €3.8 billion (2009: €4.4 billion) due to incoming orders remaining below revenue and to order cancellations. Operating profit declined from €500 million to €439 million, while the return on sales remained healthy at 11.7%.

### Economic environment

After the crisis bottomed out in 2009, the macroeconomic recovery strengthened further in the second half of 2010 in particular. High consumer spending and new investment in the emerging economies and developing countries ensured a significant increase in output and global trade. However, muted consumer confidence, rising unemployment, and high government debt kept consumer spending at a low level in most developed economies. Growth in these countries was comparatively limited.

China's considerable appetite for commodities led to extremely high demand for dry bulk transportation capacity. Transportation of finished products also picked up, boosting freight rates and allowing many ships to return to service after being mothballed. Slow steaming, which was introduced to avoid decommissioning vessels, remains in widespread use due to rising fuel prices. These positive trends, coupled with the decline in prices for new constructions, resulted in surprisingly high orders from dry bulk carriers. After a long break, orders for container ships resumed in the second half of the year. Orders for special ships and in the offshore sector increased again toward the end of the year. Only the market for chemical and product tankers is still affected by overcapacity.

The energy sector, too, was buoyed by the strengthening economy. Investment decisions relating to new power generation capacity were made in emerging economies and developing countries in particular. Demand for power plants with flexible power generation also increased due to the significant growth in power generation from renewable energies with a fluctuating availability such as wind and hydropower. In addition, investment activity for natural gas-fired power plants was encouragingly strong due to the high availability of gas and its comparatively low emissions.

Demand for compressors and turbines was still impacted by the global economic crisis at the beginning of 2010. However, business picked up in the second half of the year, with demand in both Europe and Asia improving sharply. Sales in the other regions remained on a level with the previous year; only the Middle East was unable to match the high prior-year volume that was attributable to major projects.

### Business developments

Demand for merchant ships increased by 156% compared with 2009. As a result, MAN Diesel & Turbo also recorded a more positive order intake amounting to 16.4 gigawatts (GW) for two-stroke engines. Nevertheless, its order book continued to decline despite delivery rates almost doubling.

Order intake for four-stroke medium-speed diesels used as propulsion engines and for powering onboard equipment recovered slightly year-on-year. A total of 2,028 original and licensed engines amounting to 2,803 megawatts (MW) were sold. The offshore sector also saw a low volume of new orders. However, MAN Diesel & Turbo recorded major orders in the passenger ship segment, including propulsion engines for two new cruise ships and the world's strongest propulsion system for a RoPax ferry (roll-on/roll-off passenger ferry) with four 12V48/60CR engines for the Tunisian shipping company Cotunav. In addition, MAN Diesel & Turbo gained new orders for special applications such as dredgers and in the naval sector.

Despite the continued difficult market situation and the resulting increase in competition, overall MAN Diesel & Turbo maintained its position as market leader for marine engines.

Order intake in the Engines & Marine Systems strategic business unit totaled €1,525 million compared with €1,110 million in 2009 (+37%). Revenue amounted to €1,576 million, significantly below the very high prior-year figure of €1,805 million (-13%).

Order intake for four-stroke engines used in diesel power plants substantially exceeded the 2009 figure in the year under review. Together with its licensee partners, MAN Diesel & Turbo sold a total of 197 engines amounting to 1,750 MW. The order for 120 18V32/40 engines for six Brazilian power plants as part of the A-3 expansion program is particularly worthy of mention. The company's other projects included an order for an additional 184 MW power plant for a public utility in the Caribbean. This led to a year-on-year increase in order intake in the Power Plants strategic business unit from €789 million to €812 million (+3%). Revenue also rose to €839 million (+39%) due to the implementation of the strong order intake in previous years (2009: €606 million).

The Turbomachinery strategic business unit recorded an increase in order intake for turbomachinery for chemical/petrochemical plants and for fertilizer, as well as in the oil and gas industry segment. The largest business segment remained the oil and gas industry, with plant and equipment for the production, storage, and processing of gas. A further focus was the sale of compressor trains for air separation equipment and generator steam turbines for energy generation. Key major orders were placed for six machine lines for the primary industries in China. Earnings quality in the new construction business was impacted by price pressure due to the lower volume of orders awarded. At €1,138 million, the strategic business unit's order intake was 10% up on the previous year (€1,038 million). Its continued healthy revenue of €1,351 million was generated mainly from high order backlogs at the beginning of the year; this figure declined slightly by 2% as against 2009 (€1,386 million).

### Operating profit

MAN Diesel & Turbo's operating profit amounted to €439 million in the period under review. A slight drop in revenue in particular, as well as cost overruns, provisions, and expenses for setting up the Power Plants strategic business unit, meant that the company could not match the prior-year figure (€500 million). Nevertheless, its return on sales remained at a healthy 11.7%.

### Employees

MAN Diesel & Turbo employed 12,455 people as of December 31, 2010 (including subcontracted employees; previous year: 12,511). This decline is due in particular to the reduction in staff at the Germany and Denmark sites.

### Capital expenditures

Overall, capital expenditures in 2010 were reduced significantly by 39% compared with the previous year.

One focus at the Augsburg site was the continued modification of engine test beds for series operation and development. In addition, the plant began renewing parts of its pipe production so that its

manufacturing procedures meet state-of-the-art occupational safety and environmental requirements. Another focus of investment was on mechanical production in the area of injection systems in order to further expand this core competence. At the same time, the first construction measures were taken for the new kindergarten on site.

The company continued to expand its production site at Saint-Nazaire so that, going forward, it can assemble and test up to 50 large-bore diesel engines per year. In Copenhagen, investments were made in injection production, and the necessary steps for the construction of a PrimeServ academy were initiated.

Investments in machinery and equipment were made at the production and test sites in Oberhausen and Zurich in order to maintain the plant and machinery in an up-to-date and efficient state. One focus that will continue in the coming years was expenditure on testing facilities for developing new products and enhancing existing ones.

MAN Diesel & Turbo drove forward the expansion of production facilities at its production site in China, and will continue to do so in the coming year. The aim is to develop capacity here to manufacture components for other business areas in which MAN Diesel & Turbo operates.

In 2010, MAN Diesel & Turbo established service and sales companies in Guatemala, Poland, and Qatar to increase its global presence. The company further expanded its existing local centers in China, the United Kingdom, India, Russia, Spain, and South Korea.

### Research and development

Even during the crisis years, MAN Diesel & Turbo continuously invested in forward-looking products and technologies so that, in the future, it can continue offering customers optimum products that meet growing environmental compatibility, cost-effectiveness, and reliability requirements.



Top: A large-bore diesel being transported  
 Top right: Competence Center Repair Europe in Oberhausen  
 Bottom right: Reactor at the Deggendorf plant

For example, all MAN Diesel & Turbo engines fulfill the Tier II emission standards that are effective from 2011. The MC-C9 engines developed for the Chinese market are key innovations in the two-stroke engine segment. In the four-stroke segment, the Tier II-compliant 10 MW 20V28/33D engine was developed as the strongest in its class. These are complemented by the two new L- und V-32/44CR engines that are fitted with the common rail technology required for demanding heavy oil-powered operation and therefore record optimum consumption and emission figures at every load point. Significant progress was also made with dual fuel engines as well as gas engines, which are becoming increasingly important for the future. The company is also stepping up its work on future topics such as Tier III. New technologies to cut emissions are already being tested and will be developed in cooperation with prominent industrial partners.

As a result of the merger, MAN Diesel & Turbo can now offer products that are adapted even better to customer needs. One focus is on systems comprising diesel engines and tailored energy-efficient heat recovery systems. The company's ability to now offer one-stop shopping for both gas engines and gas turbines is an additional competitive advantage.

Ever decreasing oil and gas reserves are leading to these raw materials being produced under difficult environmental conditions. Deep waters (of up to 3,000 m), oil and gas fields that lie beneath ice, arctic temperatures and adverse sea conditions, as well as declining reservoir pressures or smaller reserves necessitate new compressor and propulsion technologies. MAN Diesel & Turbo's Turbomachinery strategic business unit took a significant step in developing equipment for subsea purposes by systematically enhancing its own high-frequency electric engine. This 18 MW high-frequency engine forms the basis for future subsea and offshore applications. To qualify this pioneering new technology, a qualification program was launched in cooperation with a prominent oil and gas producer, during which the prototype successfully completed more than 10,000 operating hours.

Another R&D focus this year was the construction and testing of an innovative geared compressor concept for air separation with the aim of optimally designing and shortening processes with regard to throughput times. The company began developing a component test bed for CO<sub>2</sub> geared compressors that is expected to start operating in 2011. This testing facility enables MAN Diesel & Turbo to make a key contribution to climate protection. In addition, the company will drive forward development of reactors for gas and biomass liquefaction as part of the trend towards green/biomass technology.

The current green power initiative is a key concern in the power plant sector. Here, the focus is on solar thermal power plants that use reheating steam turbines. MAN Diesel & Turbo has developed a highly flexible, dual-housing turbine design for these plants that enables outstanding efficiency not only for the turbine itself, but also for the entire process. This gives MAN Diesel & Turbo a strong position in the solar steam turbine market.

In the air separation, ethylene, terephthalic acid, and refinery sectors, the trend towards mega-sized plants has been in evidence for some years and is continuing. In the past fiscal year, MAN Diesel & Turbo therefore vigorously pursued its extensive development program with a view to moving into new size and power density categories in all segments—axial compressors, centrifugal compressors, geared compressors, and steam turbines. The company took an extremely important step towards mega-sized plants by testing a brand new axial compressor based on aerospace technology. This new product will be used in initial projects soon and will strengthen our market lead in this segment.

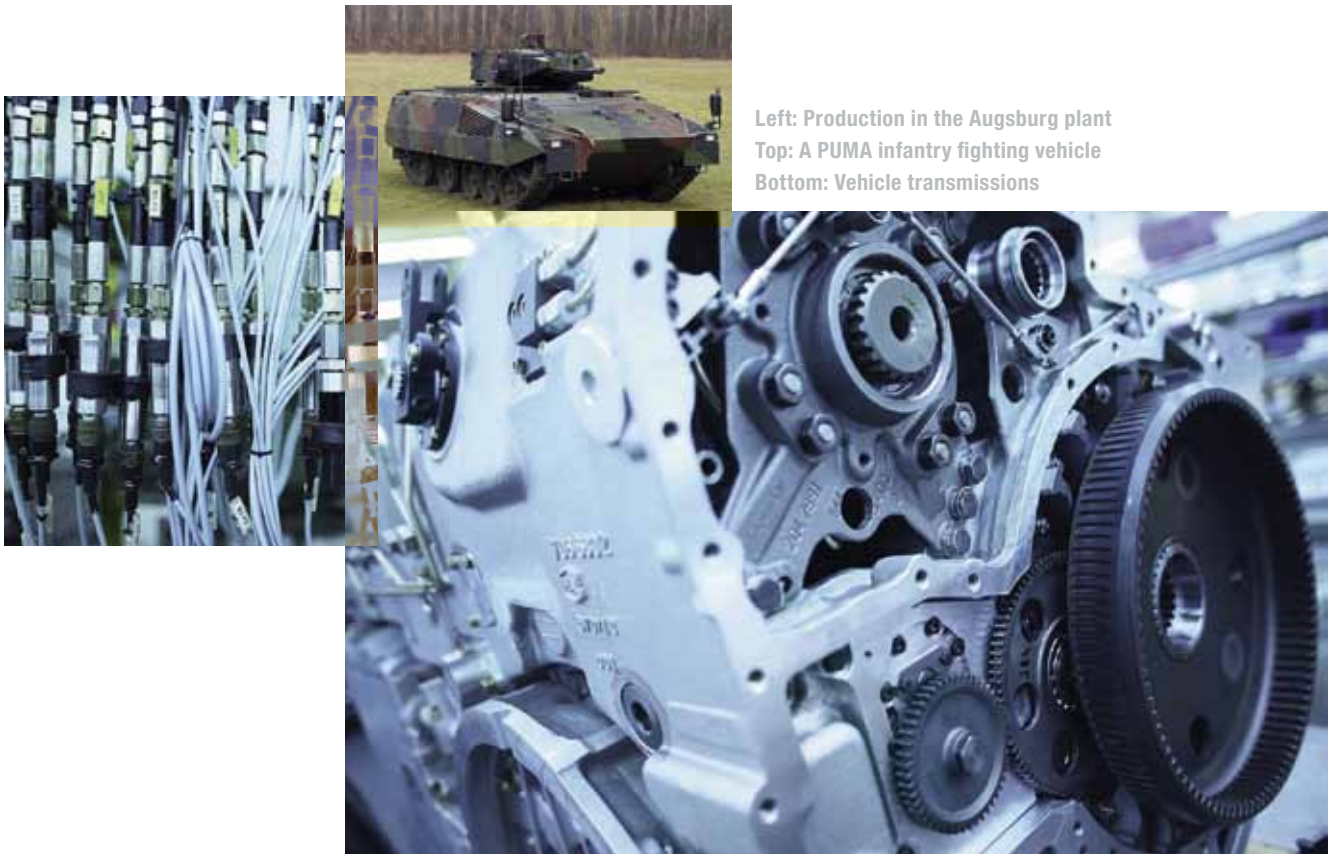
### Outlook

The emerging economies and developing countries are again expected to see continued healthy growth in the coming year. Demand for commodities such as coal, oil, and natural gas will further increase and lead to price hikes. This trend, which applies especially to oil, will in turn boost investment in the commodities industry.

After seeing orders bottom out in 2009 and 2010, the shipbuilding industry will recover slowly—earlier than expected, but at a much lower level than in the boom period of 2005 to 2008. Price pressure will remain high as the overcapacity in the container ship and bulk freighter markets has not yet been fully absorbed. China will continue on its path to becoming the world's largest shipbuilding nation. In emerging economies and developing countries in particular, increasing population and economic growth as well as the emergence of a high-spending middle class will ensure

a continuous rise in demand for products that MAN Diesel & Turbo plays a key role in manufacturing thanks to its offering for the processing industry. This will be accompanied by growing demand for energy in these countries, which will have a positive effect on the development of new capacity for electricity provision. Future demand for new power plants in the OECD countries 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.

In fiscal 2011, MAN Diesel & Turbo expects its order intake and revenue to be slightly below the period under review. It is currently forecasting a decline in revenue of up to 5%. The order backlog will settle at roughly the same level as revenue for the first time since the shipbuilding boom began. Operating profit is expected to decrease somewhat more sharply than the business volume, but the return on sales will remain in double digits.



Left: Production in the Augsburg plant  
Top: A PUMA infantry fighting vehicle  
Bottom: Vehicle transmissions

## Renk

MAN Renk € million	2010	2009
Order intake	525	294
Revenue	403	474
Employees <sup>1</sup>	1,882	1,903
Operating profit	52	66
ROS (%)	12.9	13.9

<sup>1</sup> Including subcontracted employees as of December 31

### Economic environment

Fiscal 2010 was dominated by a tangible upturn in market demand whose continuing momentum suggests that the economic environment will strengthen further in 2011.

### Business developments

The clear recovery in orders contrasted with a continued decline in revenue. This trend is due to the fact that a significant proportion of Renk's product portfolio has throughput times of more than twelve months and new vehicle transmission orders usually entail multi-year delivery periods. The current rise in order intake will therefore have a delayed effect on revenue. The decline in revenue in 2010 is mainly attributable to the low order intake in the previous year.

Renk's Vehicle Transmissions business received a major order for the German PUMA infantry fighting vehicle and an order for a testing facility for high-performance wind power gear units. The term of the PUMA contract runs significantly beyond 2015.

In 2010, the Slide Bearings business again recorded stable operations that resulted from additional growth opportunities. This positive performance was due to increasing customer orders and the short order throughput times of a few weeks that are characteristic of this segment.

In contrast, the upturn in the market for special and standard gear units was relatively muted. Commercial shipping showed no significant signs of recovery and the markets for stationary gear units remained under fierce competitive pressure.

### Operating profit

The €71 million decline in revenue to €403 million (previous year: €474 million) was the main reason why operating profit also decreased to €52 million (previous year: €66 million). Other significant factors impacting earnings were the underutilization of production capacity that remained tangible in the first half of 2010 in particular and risk provisions for offshore wind power gear units. Despite these negative effects, Renk generated a return on sales of 12.9% (previous year: 13.9%).

## Employees

The Renk group had a workforce of 1,882 people as of December 31, 2010 (previous year: 1,903). 1,720 staff were employed at German sites (previous year: 1,747), and 162 abroad (previous year: 156).

## Capital expenditures, research and development

Investments focused on adding high-performance processing machinery to complete the range of equipment at the new production facility for special gear units at the Augsburg plant, as well as developing a wind gear unit test bed at the Rheine plant in preparation for the series production of 5 MW wind power gear units.

Development activities concentrated on preparing the PUMA transmission for series production and basic development work on a transmission concept for transferring extremely high torque.

## Outlook

The clear economic recovery in Renk's key market segments should continue in 2011, with the exception of new constructions in merchant shipping. Demand for offshore wind power gear units in particular will further increase in the coming years. Management also believes that there are good opportunities to implement export projects for tracked vehicle transmissions.

Based on this market assessment, Renk expects its order intake in fiscal 2011 to be at the high prior-year level. Long throughput times and multi-year delivery schedules for vehicle transmissions will not allow a turnaround in revenue until 2012. This will also be reflected in a slight decline in revenue and operating profit that is forecast for 2011. Renk will secure its leading position in gear unit construction by taking continuous measures to ensure flexible costs and by enhancing its entire product range for the benefit of its customers. Its return on sales is expected to remain in double digits.

## Others/Consolidation

€ million	2010	2009
Employees <sup>1</sup>	312	300
of which: MAN Shared Services	93	122
of which: MAN SE	219	178
Operating profit/loss	16	-113
of which: MAN SE and MAN Shared Services	-83	-63
of which: investment in Scania AB (equity method)	99	4
of which: investment in Sinotruk Ltd. (equity method)	29	-
of which: investment in manroland AG (equity method)	-13	-53
of which: consolidation	-16	-1

<sup>1</sup> Including subcontracted employees as of December 31

"Others/Consolidation" comprises the investments held directly by MAN SE, MAN SE and its Shared Services companies, as well as the consolidation adjustments between the MAN Group's companies.

In 2010, the operating loss for the Corporate Center and its Shared Services companies amounted to €83 million (previous year: operating loss of €63 million). The deterioration as against the comparable prior-year period is due primarily to increased expenses for legal advice, marketing, and the establishment of the compliance organization, as well as higher bonuses due to improved corporate results. MAN's share of income from Scania amounted to €99 million; as a result of the staggered inclusion of this company, it includes Scania's figures for both Q4/2009 and the first nine months of 2010. The low level of income in the comparable prior-year period was mainly attributable to poorer earnings as a result of the economic situation. The equity interest in Chinese truck manufacturer Sinotruk acquired at the end of 2009 contributed €29 million to operating profit, thanks primarily to the company also recording a strong improvement in earnings compared with 2009. manroland's performance (€-13 million) continued to be dominated by the weak market situation in the printing machine sector.

The higher cost factors from consolidation result from a rise in eliminated intercompany profits due to increasing intragroup transactions, in particular in the commercial vehicles business.

## Financial statements of MAN SE

Summarized below are the annual financial statements of MAN SE prepared in accordance with the *Handelsgesetzbuch* (HGB—German Commercial Code). The complete annual financial statements are available from MAN SE or on the Internet at [www.man.eu](http://www.man.eu).

### Results of operations

€ million	2010	2009
Net investment income/expense	276	-98
Other earnings before taxes	361	-165
<b>Earnings before tax (EBT)</b>	<b>637</b>	<b>-263</b>
Income taxes	-116	-35
<b>Net income/loss for the fiscal year</b>	<b>521</b>	<b>-298</b>
Retained profits brought forward	0	40
Transfer to (-)/withdrawal from (+) revenue reserves	-225	295
<b>Net retained profits</b>	<b>296</b>	<b>37</b>

MAN SE's earnings before tax improved by €900 million in the reporting period to €637 million. This is mainly due to the gain on the merger of MAN B&W Diesel Beteiligungs GmbH and MAN Maschinen und Anlagenbau GmbH with MAN SE as well as the reversal of the write-down recognized in the previous fiscal year on the carrying amount of the investment in Scania AB. Other earnings include general and administrative expenses, net interest income, and other income and expenses. As in 2009, the net taxable loss for the fiscal year meant that there were no German current taxes in 2010. The income tax expense of €116 million relates mainly to prior-period taxes.

Net retained profits amount to €296 million following the transfer of €225 million to revenue reserves and the retained profits brought forward. At the Annual General Meeting, MAN SE's Executive and Supervisory Boards will propose utilizing the net retained profits of €296 million (previous year: €37 million) to distribute a dividend of €2.00 per share carrying dividend rights (previous year: €0.25) and to carry forward the remainder to new account.

### Net assets and financial position

€ million	2010	2009
Fixed assets	5,651	4,220
Current assets	2,374	2,429
<b>Total assets</b>	<b>8,025</b>	<b>6,649</b>
Equity	2,311	1,828
Financial liabilities	4,886	4,174
Other liabilities and provisions	828	647
<b>Total equity and liabilities</b>	<b>8,025</b>	<b>6,649</b>

Fixed assets relate primarily to shares in affiliated companies.

Current assets mainly include receivables from financial transactions and cash and cash equivalents. These stem from the Group's central financing by MAN SE, as do the financial liabilities.

### Additional information

The rules governing the appointment and dismissal of members of the Executive Board of MAN SE and amendments to the Articles of Association comply with the statutory provisions.

The principles governing the remuneration system for members of the Executive and Supervisory Boards are explained in the remuneration report, which forms part of the management report in accordance with section 315 of the HGB. The remuneration of the members of the Executive and Supervisory Boards is reported individually in the sections entitled "Remuneration of the Executive Board" and "Remuneration of the Supervisory Board" in the "Notes to the Consolidated Financial Statements." As of December 31, 2010, MAN SE employed 219 people including subcontracted employees (previous year: 178).

# 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.