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## Annual General Meeting of MAN SE April 1, 2010 at the ICM (Messegelände, Munich)

### Report by the CEO Dr. Georg Pachta-Reyhofen

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#### **Welcome remarks**

Dear Shareholders, Dear Guests, Ladies and Gentlemen. It is my pleasure to welcome you to the 2010 Annual General Meeting of MAN SE.

I am pleased to see such a large turnout. Today, I would like to tell you more about the previous fiscal year as well as the Company's current position and prospects.

The new four-member Executive Board stands before you today for the first time. I am convinced that the new Executive Board team has the expertise and passion required to lead MAN on the road to success.

2009 was an exceptional year for MAN. The repercussions of the financial and economic crisis are still proving to be very problematic for the global economy and the transportation industry has been hit particularly hard. The violations of compliance rules that were uncovered at our Company also dealt us a heavy blow. Yet despite these adversities, MAN became Germany's most popular truck brand in 2009. A survey conducted by the *Verkehrsrundschau* magazine saw fleet customers rank us the number one fleet operator. The MAN brand has been around for over a hundred years and this shows just how strong it is, even when times are tough.

#### **Course successfully set during an exceptional year**

MAN worked successfully in 2009 and took important steps. One of these was the change of legal form into a stock corporation under European law, known as a *Societas Europaea* or SE for short. In doing so, we have done more than just document our desire to be international. As MAN SE, we also

The MAN Group is one of Europe's leading industrial players in transport-related engineering, with revenue of approximately €12 billion in 2009. As a supplier of trucks, buses, diesel engines, turbo machinery, and special gear units, MAN employs approximately 47,700 people worldwide. Its business areas hold leading positions in their respective markets. MAN SE, Munich, is listed in the DAX (German Stock Index), which comprises Germany's thirty leading stock corporations.

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integrate the individual national companies to a greater extent, make decisions in fewer executive bodies and involve the employees on a more international scale.

Above all, 2009 was a year in which we took key strategic measures:

- We entered into a strategic partnership in China with truck manufacturer Sinotruk by taking a direct stake in the country's market leader for heavy trucks.
- We acquired the Brazilian truck subsidiary from VW and successfully integrated it into the MAN Group as MAN Latin America. This also puts us in a leading position on the truck market in Brazil.
- We also agreed a joint venture with Rheinmetall AG for armored wheeled vehicles at the turn of the year in order to better leverage opportunities in the military business as a system provider.
- We purposefully streamlined our structure by selling a majority interest in MAN Ferrostaal.
- The MAN Diesel and MAN Turbo activities were merged to become MAN Diesel & Turbo. Together, they will generate growth and cost synergies. They make up the strong Power Engineering business together with our majority investment in Renk.

I will address these strategic moves in more detail later on. However one thing is already clear, ladies and gentlemen: MAN was not able to magically escape a year of crisis. Instead, we took matters into our own hands, yielding substantial cost savings and laying the foundations for future growth on markets with great potential.

Fiscal year 2009 was dominated by the most severe recession in post-war history and the European market for commercial vehicles halved. MAN was unable to evade this difficult market environment. Unlike many other companies, however, our operations generated a profit again, even in the Commercial Vehicles business.

***Economy-induced decline in business***

Our order volume decreased by 30% altogether in 2009 to €9.9 billion. This affected all our companies and MAN Nutzfahrzeuge was hit particularly hard, recording a drop of 43%. The slump in international trade affected global shipping too and was also clearly reflected at MAN Diesel, which saw orders fall 39%, and at Renk.

MAN's orders in Europe declined by around 40% overall. Our strategy of leveraging growth potential outside of Europe and establishing a broader international basis for the Group turned out to be the right move.

MAN generated revenue of €12 billion in 2009, a decrease of 20% year-on-year. Nevertheless, in a world with demand slumping 50%, government support programs for banks and other enterprises totaling hundreds of billions and an imminent "meltdown" on the financial markets, we turned out to be relatively stable. But this is no coincidence. It was our corporate structure and our global market strategy through which we spread risks across industries and regions that proved their worth here.

Since it was primarily the European truck and bus markets that had to contend with heavy losses, MAN Nutzfahrzeuge suffered the highest fall in revenue at 40%. By contrast, MAN Latin America operated in a much more stable environment and generated an excellent profit. The business figures for the first few months of 2010 are also very promising.

MAN Diesel and MAN Turbo were also able to keep their revenue relatively stable. Transactions in these fields are often settled over a longer period of time which means that we also benefited from the high order backlogs of previous years. They mainly reflect the after-effects of the boom that the marine diesel engine business enjoyed for years. While the Group's order backlogs also decreased by 29% over the year, we were still able to stabilize our business with these long-term orders.

***Respectable operating profit***

MAN was also profitable overall during the exceptional year that was 2009, generating an operating profit of half a billion euro, which is a respectable level under the circumstances, ladies and gentlemen. The Commercial Vehicles business also saw a profit, although MAN Latin America was not included in the calculations until the second quarter of 2009.



MAN generated a return of 4.2% based on revenue. This may be substantially lower than the previous year but we are no longer perched on the highest peak. However, we are still on a hill with a good view that other industrial players cannot always reach, even when times are good. Except for MAN Nutzfahrzeuge, all our companies generated double-digit returns on sales.

A comparison of the Commercial Vehicles and Power Engineering businesses shows that MAN can build on two strong pillars. Each of them generated an operating profit and each is successful on the market.

It was also crucial during this critical year that we were able to generate strong net cash provided by operating activities of €1.5 billion. Adjusted for portfolio measures, the free cash flow amounted to €1.1 billion. MAN has thus shown that it is also in a position to take action quickly on the cash side.

#### ***Nonrecurring items have negative effects***

The success operationally in 2009 was marred by several nonrecurring items which pushed earnings before tax into the red. This primarily included write-downs of equity-method investments and expenses relating to the investigations by the public prosecution authorities due to suspected unlawful commission payments.

A test of our assets for impairment identified an impairment loss of €382 million on our investments in associates. This primarily relates to our investment in Scania, whose value fell below the original carrying amount in our balance sheet. These impairment losses were recognized accordingly.

However, this does not constitute a forecast of Scania's future business performance or a change-of-ownership intention in any way.

The administrative fine of €150.6 million that MAN had to pay last December in the course of the investigations by the public prosecution authorities also had a negative effect in 2009. The Executive and Supervisory Boards conducted a comprehensive internal clarification of the matter in close cooperation with the authorities, which enabled the investigations to be concluded rapidly. The costs of the internal investigations were also reflected in losses from nonrecurring items in the amount of €50 million.



Furthermore, the Executive Board commissioned specialist lawyers to legally examine the conduct of the MAN Supervisory Board in the period from January 2003 to April 2009 with regard to compliance. The corresponding report concludes that the MAN Supervisory Board and its members performed its/their work with the due care of prudent and diligent supervisory board members in the case of the compliance matter.

There were also tax arrears of €20 million and €20 million for severance payments to former Executive Board members and senior managers.

### ***Sustainable compliance measures***

Despite these figures, which are painful enough, the uncovered violations of our compliance rules mean that the proud MAN brand has suffered a public loss of image. We have to do more than just respond to this quickly — we also have to think long-term. Our 5-point program from July 2009 which we continue to pursue systematically is an important part of this. I would like to take this opportunity to emphasize the following points:

- We have taken a chief compliance officer on as part of our compliance system. He reports directly to MAN SE's CEO.
- Employees in all the relevant functions receive clear rules of conduct in hands-on training.
- An online helpdesk has been set up for all employees. There are also plans to establish a system for reporting violations.
- Additional staff has also been recruited for the internal audit function.

Compliance is a top responsibility for all managers and employees and remains so. At the same time, it is clear to us that this should not lead to bureaucracy. We have to take consistent and practical action. Clean business dealings should not be restricted.

The nonrecurring items cast a cloud over the good profit that MAN generated despite the difficult circumstances in 2009. However, they are one-off and mean that we can look ahead clearly, free from the burdens of the past.



Earnings per share from continuing operations including nonrecurring items amounted to €-2.69. However, this figure is a positive €1.47 on the basis of operating profit excluding the effects of purchase price allocations and excluding nonrecurring items.

***Top yields in the DAX***

Compared with other listed industrial players, this is a respectable result. The capital market visibly rewarded our efforts again last year. MAN's stock was among the top performers in the DAX, recording a share price gain of 41% and a total return of around 47%.

Our corporate bond of €1.5 billion was significantly oversubscribed last spring. This development shows the confidence in MAN's performance and its potential. Our CFO Lutz will continue to very actively pursue direct dialog with the capital markets. We would especially like to thank you — our shareholders — for this trust.

MAN still has a diversified shareholder structure. Our largest single stockholder is one of the most famous German companies in the world — Volkswagen AG — and holds 29.9%.

***Distribution of a dividend, even when times are difficult***

Based on the result that I have just explained, the Executive and Supervisory Boards propose to the Annual General Meeting that a dividend of 25 cents per share be distributed for fiscal year 2009. We believe that this payment appropriately reflects the economic realities facing MAN and the environment in which it operates during these difficult times. At the same time, this ensures a continuous share of the profits based on liquidity levels that are very sound.

Our aim of growing globally and profitably in the future as well requires room for maneuver. For this reason, we would ask you to approve the authorization to purchase and use own shares again this year. The current authorization expires in October 2010. A change to the law means that this year, for the first time ever, it is possible to issue the authorization for a period of five years, i.e. until March 31, 2015. The existing authorization that was resolved at last year's Annual General Meeting to purchase own shares was not used. This means that MAN SE does not own any shares.



Additional Annual General Meeting authorizations that are currently in place at MAN for capitalization measures also expire in June of this year. We want to be more flexible in the future too in order to continue developing the Company in the interests of the shareholders. For this reason, we propose that the authorization to create authorized capital be renewed. This authorizes the Executive Board, with the consent of the Supervisory Board, to increase the share capital by up to €188 million up to March 31, 2015.

We would also ask you to authorize the Executive Board, with the consent of the Supervisory Board, to issue MAN convertible bonds and bonds with warrants in the aggregate amount of €2.5 billion and to contingently increase the share capital by up to €76.8 million for this reason up to March 31, 2015.

The respective authorizations provide for the Executive Board's right to disapply shareholders' preemptive rights in the cases listed in the Invitation to the Annual General Meeting. In order to protect the shareholders, the disapplication of preemptive rights is limited in each of these cases to 20% of the share capital that is valid when use is made of the authorizations. Shares that were issued to employees with management responsibility while disapplying preemptive rights are not included when calculating this 20% limit.

MAN has seen many changes over the years. We have also redefined management of the company to accompany the focusing process in recent years. The Industrial Governance management system clearly defines how duties and responsibilities are divided between MAN's headquarters and its companies. This basically means decentralized operational decisions guided by central strategic management.

MAN SE's new structure was the reason behind this change. Six years ago, the Group still had 12 companies with areas of business that were very diverse. Today, we have a structure that is much more focused.

### ***Two strong pillars***

Following the sale of MAN Ferrostaal, we now concentrate on two pillars: Commercial Vehicles and Power Engineering.

- The Commercial Vehicles business has a traditional player in the form of MAN Nutzfahrzeuge, especially with the MAN and NEOPLAN brands on the European markets and with the MAN Force Trucks joint venture in India.



A new addition is MAN Latin America. The company enables us to tap into potential throughout the whole of South and Central America and other markets from Brazil.

This business is complemented by our equity interests in China-based Sinotruk and in Scania as well as by our future Rheinmetall MAN Military Vehicles joint venture.

- Power Engineering is the second strong pillar. We have a real champion in ship engines in the form of MAN Diesel. Around 50% of global trade is moved by MAN's ship engines. Our shares in the power plant business are also growing steadily.

We have united MAN Diesel & Turbo with our majority stake in Renk AG and our expertise in green technology in the Power Engineering business.

Both pillars are subject to different economic cycles, which is very advantageous in economically difficult times. Furthermore, they are much more closely connected than they seem at first glance. Both are based on the engine technology that Rudolf Diesel invented at MAN and in which the Company has led for around a 100 years. Both companies are also tasked with providing efficient and eco-friendly propulsion systems. Thus the whole is greater than the sum of the individual parts.

### ***Focus on transportation, energy and green technology***

Thus MAN is clearly focused on transportation, energy and green technology. The logic behind this concentration is based on several factors:

- MAN's expertise and experience on these markets are without parallel, be it in vehicles, engines, propulsion systems or turbomachinery.
- The business areas mutually complement each other. Engine expertise from commercial vehicles is helpful for marine diesel engines, large-bore diesel engines can also be used in power plants and combustion ignition or spark-ignited engines are more efficient still when combined with turbine technology. Those are just a few examples.
- One of the things that all these markets have in common is that they also have excellent long-term growth potential worldwide. All experts expect transport and energy needs to rise continuously, particularly in



the emerging economies. At the same time, solutions that are as eco-friendly as possible need to be found.

In other words, the development opportunities are still there. But growth has to be sustainable and profitable as well; we will not pursue it at all costs. That is why our structures stay lean and focused. This is the only way to ensure that we are still able to make decisions and react quickly.

MAN has also achieved the growth seen in recent years with remarkable financial stability. This has proved to be particularly valuable in the financial and economic crisis. MAN has an excellent credit standing and thus has a relatively low cost of capital. At a consistent 32%, its equity ratio is at a high and healthy level.

### ***Costs cut by over €700 million***

We adapted to the recession, particularly in the truck sector, by means of strict cost-cutting measures. I would like to take this opportunity to thank all the employees who were involved in these measures and have worked hard for MAN, even when times are difficult. Together, we succeeded in systematically enhancing efficiency and significantly cutting costs. At over €700 million, we clearly exceeded the original savings target of €500 million. Around half of this can be seen as sustainable.

However as a technology company we have to be realistic when it comes to saving. The development cycles for trucks are becoming increasingly shorter, while manufacturers and their customers are faced with the challenge of making transport more efficient and eco-friendly.

Our slogan is “engineering the future — since 1758” because MAN stands for leading technology and premium products:

- Marine diesel engines have to be highly reliable. Each day lost costs our customers tens of thousands of euro.
- The same applies to large-bore diesel engines for power plants, Renk’s gear units for wind turbines or MAN Diesel & Turbo’s turbines and compressors for the oil and gas industry.
- The focus in the commercial vehicles business is also shifting increasingly to the total cost of ownership. This means that it is not low pricing



that is requested upon purchase, but calculable and reasonable costs over the entire life of the trucks and buses.

- However we expect the biggest challenges in another area that equally affects all business activities — the stricter environmental standards to be expected in the future.

### ***Steady investments in R&D***

For this reason, research and development should not be dictated by saving in the short term. This is why employees in the R&D departments at MAN Nutzfahrzeuge were largely excluded from short-time working. We also kept investments in R&D stable at a high level. Over the past five years, these expenditures have grown by 7.6% a year on average. We want to stick to this.

Know-how is indispensable for leveraging market potential. However, MAN also has the necessary experience and market presence. We operate in 150 countries today and 44% of our employees work outside Germany.

We will continue to focus on the BRIC countries internationally. In doing so, we are pursuing the international growth strategy that we have embarked upon in recent years which is just starting to bear fruit. Brazil is an excellent example of this.

Now it is mainly about putting the strategic decisions into practice with acquisitions and cooperation agreements in the sense of a global product and production concept and succeeding through growth and synergies.

This year, we will be presenting a new truck brand in China for the Asian market together with our partner Sinotruk. We will also be integrating the first few components from MAN into Sinotruk's existing ranges, as planned. This partnership enables us to participate directly in the market leader's performance in the largest truck market worldwide, which would not be possible with a joint venture.

We have been represented in China since 2008 through the production of turbomachinery.



Our joint venture for trucks in India also offers us substantial market potential. Production will be boosted once we have localized the vehicles there and adapted them to the market once more.

The integration in Brazil is making excellent progress. MAN is continuing to successfully carry the VW truck brand established in the country — which leads the market in Brazil — and will complement it at the end of the year with more powerful premium trucks bearing the MAN brand. The first few orders for these vehicles have already been placed. We now want to expand beyond Brazil into all markets in Central and South America with a larger range of products.

### ***Represented in Brazil in all areas***

In addition to this, Brazil is a key market for turbomachinery and power plant engines. Oil company Petrobras has been one of our customers since 2002. Furthermore, MAN Diesel & Turbo recently secured an order for 120 power plant engines worth around €300 million and we expect to cinch more deals in the near term. Brazil is already our second-largest market today in terms of revenue.

Thus MAN's growth story is more or less set in stone and more chapters are to come.

I would like to emphasize one thing here: products for developing and emerging economies have to be adapted to the needs of the market! A vehicle used in China or Russia is exposed to stresses and strains that are different to those in Central Europe, and the customers also have other needs and demands for the most part. Development also has to take place step by step in the regions, depending on the market situation and the infrastructure. This is the only way to ensure that a high degree of localization is also accompanied by sufficient quality. Basic development continues to take place in Central Europe while an additional sales cycle for perfected but adapted products can be used in emerging economies.

### ***International modular and platform strategy for trucks***

Conversely, this means that we are not working on a truck that would be suitable all around the world. By contrast, a modular or platform strategy in which components and adapted ranges are widely used internationally is



possible and does make sense. We now want to make greater use of these synergies.

Focusing on core competencies was also the motive behind our joint venture with Rheinmetall AG. But this does not mean that we intend to disassociate ourselves from the military business. Rather, the aim is to systematically combine the core competencies of both partners: MAN's expertise in the development and production of heavy off-road trucks with Rheinmetall's know-how in the armoring of these types of vehicles. This kind of expert system provider has an image on the market that is considerably more compelling and powerful.

We also hope to yield synergies in the merger of MAN Diesel and MAN Turbo. The companies should leverage additional sales potential through the joint product packages in particular, such as diesel turbine power plants in which a steam turbine uses a diesel engine's waste heat to generate additional electricity. This increases the effectiveness of the entire system once more — a substantial improvement in efficiency which creates valuable competitive advantages both on ships and in power plants. The joint use of the purchase, sales and after-sales network is another example of synergies. The €60 million that we hope to generate a year in this respect is a conservative calculation. Annual revenue is set to increase by €100 million.

### ***Modern green technologies already in use today***

MAN Diesel & Turbo SE were entered as a new joint company, headed by Mr. Stahlmann, in the Commercial Register on March 19, 2010. The company stands for promising green technologies. While the Desertec "Electricity from the desert" project sounds like a much-told tale from the Arabian Nights, solar power plants with MAN Diesel & Turbo's steam turbines are already a reality today. Diesel & Turbo components are also used in biogas facilities while a diesel engine in Tyrol converts used cooking oil into eco-friendly energy. Others talk about green technologies in the distant future but we are creating them today.

Another example is our diesel hybrid power plant on the Antilles island of Bonair where a diesel engine driven free of carbon dioxide by biofuels backs up the power supply. It compensates for the unstable supply of power from wind energy and can virtually be used at the push of a button. As an independent base load power station, the hybrid power plant now supplies the entire island with eco-friendly energy totaling up to 25 megawatts. A small



yet fine — and above all flexible — solution, particularly for regions that are far away from large grids. This provides emerging economies with the option of secure power supply which is an indispensable prerequisite for economic growth.

You can see another impressive example right here before the hall: we have played a considerable part in reducing emissions in city traffic through MAN buses with serial hybrid drive. We will be delivering these types of vehicles in Munich, Milan, Paris, Barcelona, Vienna and several cities in the Netherlands in 2010 and later on in other European capitals. They can be relied on to reduce fuel consumption and thus the CO<sub>2</sub> emissions by around 25%. Given the pollution in cities and the regulation that is set to be in store, ladies and gentlemen, I expect that there is a large market emerging here.

### ***CSR being anchored more firmly***

The comprehensive issue of sustainability is now being tracked more consistently at MAN. Although MAN certainly cannot save the world through its actions, it is responsible for them. Employees and customers require comprehensible and value-based conduct more than ever — and quite rightly too. It has already become an important attribute when competing for the best minds.

In order to closely follow this issue throughout the company, we have set up a CSR Board that is headed by Jörg Schwitalla and includes a CSR manager. Our responsibility is already reflected in the corporate values and in compliance with the Corporate Governance Code. Now we also want to embed it in our corporate strategy and link it to clear performance targets. MAN is to be readmitted to the Dow Jones Sustainability Index in the medium term, for example. Our understanding of responsibility will be anchored throughout the Company in this way which will strengthen MAN's image among all target groups in the long term — a value that should not be underestimated in our transparent company.

This spirit is also reflected in MAN's vision. We want to lead in all the markets that are relevant to us. Size does not necessarily make you number one in all cases. Profitable growth is crucial. We are doing very well in this respect in some areas. We rank first in Brazil — a key market — when it comes to truck sales. MAN Diesel is the clear leader for two-stroke ship engines in terms of commissioned engine performance with an 80% slice of the market while generating an excellent return on sales at the same time.



However, the requirement to be a premium brand is not only based on market positions and products, but also on internal processes and the expertise of our employees.

***Clear profile as an employer***

As a Company, we also need a stance as a signal for our employees and applicants. MAN has launched an employer branding campaign for this reason. Each applicant — and our existing employees — should be able to associate definite qualities with MAN. We value an atmosphere of mutual respect and fair cooperation. The door is always open at MAN. MAN builds on the know-how and the talent of all employees. We encourage the curiosity and initiative of each individual. We also offer numerous opportunities for continuous professional development and working abroad throughout the Group.

This is the foundation for driving our growth forward and it is also how we overcame the critical year that was 2009 together. Our employees need security and perspective in order to work creatively, reliably and with dedication. It is with this in mind that we employed the instrument of short-time working at MAN Nutzfahrzeuge. We would have liked to have had more favorable market conditions on the European truck market but we are at least able to make practical use of this idle time now for continuous professional development and process improvements.

***Cautious outlook***

Unfortunately, the difficult times are not over completely. We expect business at MAN Nutzfahrzeuge to continue at the current level in 2010. Signs that the market is recovering are still timid. For this reason there will be additional measures to boost efficiency, cut costs in the long term and positively manage cash flow. Business performance at MAN Latin America is likely to be pleasing once again.

Revenue is expected to fall moderately at MAN Diesel & Turbo in the Power Engineering business. However, the return on sales should again be significantly above the current target of 8.5%.

Thus MAN will remain stable and reliable in the lean period in 2010.



***Successful strategy continued in 2010***

Strategically, we will continue to pursue our chosen course in 2010. The Commercial Vehicles business will focus on the global product strategy. We will build on and continue the successful international steps, even in the BRIC countries. Today, MAN is already well positioned for further expansion. The merger of MAN Diesel & Turbo also involves opportunities that we can leverage quickly.

The general economic situation is still far from simple. However MAN has created an excellent base with leading products and positions in fast-growing markets. Our ability to find technological solutions and conquer markets through innovation is what makes us stronger and stronger. We are currently employing these strengths well. I would be delighted if you would continue to place your confidence in us and to accompany us on this course.

Thank you very much for your attention!