Press Release

MAN Aktiengesellschaft

# MAN AG Annual General Meeting
# May 19, 2006 at the ICM Congress Center, Munich
## Report of CEO Håkan Samuelsson

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**Content**



### 1. Welcome / Introduction

Ladies and gentlemen, in the name of the entire Executive Board, I would like to welcome you to the 2005 MAN Annual General Meeting. I am happy to have this opportunity to report here to you today about our company's business during the past year, its further development, and on the perspectives for the MAN Group.

2005 was a good year for MAN. It was also a significant year in our development, marking a new era in which 100% of our shares are freely floated on the stock exchange. For this reason, I would like to take a few minutes to review our last Annual General Meeting and the essential tasks and plans we faced then.

**Tasks 2005**

- We formulated new guiding principles:
  Every area should measure itself against its best competitors and be able to develop further within the Group. Losses and cross-subsidization would not be tolerated.
- Fast sale of all peripheral activities and thus, focus on five core areas. We have accomplished all of these tasks.
- Introduction of a new management system, "Industrial Governance", designed to strengthen our strategic competence and corporate power: Today, I will tell you about our progress in implementing this system.
- Stopping the losses in our Sheet-fed Press and British Diesel Engine units. Thanks to extensive structural measures, we have achieved both of these goals as well.
- We set new profitability targets for ourselves:
  ROS (return on sales) of 6% and ROCE (return on capital employed) of 18%. We had anticipated reaching both of these goals by 2007, afterwards maintaining these on an average throughout the cycle. We surpassed the 18% ROCE mark in 2005; as far as our ROS goes, we assume that we will exceed 6% in 2006.

Ladies and gentlemen, we had firmly resolved to adhere to these priorities, and I am glad to say that we have done this to a large extent. Of course, the positive economic situation has helped us reach these targets, but this would not have been possible without a series of structural measures.

## 2. Business performance in 2005

I would now like to talk about our report on fiscal year 2005. It was a very good year for MAN, with strong increases in volume in almost all areas and substantially higher profits. We published the figures in mid-March; for this reason, I will only mention essential facts and developments. Our order intake of €18 billion set a record in MAN history, and represents a 15% increase over 2004. This is due in part to a series of major contracts, especially an order worth €1.4 billion from the British Ministry of Defense (MoD) for over 5,200 trucks. But even excluding major contracts, our customers ordered 7% more than in 2004. In addition to Commercial Vehicles, our Diesel Engines and Turbomachines areas and Web-fed Presses unit made major contributions to our increased order intake. These areas all achieved top figures.

It is also interesting to take a short look at the regions: here we see strong growth in EU countries that is not only due to the major truck contract from England. We also have very satisfactory increases in other important growth markets, for example the new EU countries, Southeast Asia and the Middle East. Altogether, our business has become more international – the proportion of our foreign orders grew from 75% to 77%.

Sales increased in 2005 by 5% to nearly €15 billion; sales in the manufacturing business areas rose by 9%. We saw the sharpest sales growth in Commercial Vehicles and Diesel Engines. There was a decline in Industrial Services, primarily due to lower steel prices.

The high order intake led to a considerable increase in our order backlog, which showed a record €10.9 billion at the end of 2005. Altogether, this is a good basis for plant utilization at our sites in the current and coming fiscal years.

### 2.1. Operating profit

I now come to MAN's 2005 operating profit. At €765 million, our operating profit is the highest in the company's history, and €208 million higher than the previous year. All areas have earned substantially more, above all, Commercial Vehicles and Diesel Engines, which both profited from higher sales and optimization measures. The improvements in Printing Presses, which realized the desired turnaround in the Sheet-fed unit, were also considerable.

### 2.2. Returns

The result was distinct increases in returns: ROS reached 5.2%, or 1.2 percentage points more than the previous year, but still lower than our target. We made significant progress with our ROCE, exceeding our target of 18% for the first time. The reason for this was significantly improved operating profit and positive developments in capital employed. We defined ROS targets in the individual Group areas that are oriented to benchmarking with the competition. Diesel Engines succeeded in surpassing its ROS target, achieving 7.1%; Commercial Vehicles and Turbomachines came closer to their targets. Printing Systems, in which the Sheet-fed unit achieved a turnaround in 2005, had the greatest distance to overcome.

It is important to me to note here that on the average, we want these profitability targets to be sustainable through one economic cycle. This means that we must earn higher returns in good times in order to compensate for economically weaker phases. We thus have some catching up to do.

## 2.3. Employees

Ladies and gentlemen, the continuing internationalization of our business can also be seen in the development of our employee headcount. Worldwide, MAN numbered some 58,000 employees at the end of 2005 – in comparison to approximately 59,000 the previous year. The share of foreign employees grew to nearly 38% – the result of the internationalization of our business and the relatively high costs of personnel here at home. This means that the developments of past years have continued. On an average, the proportion of MAN personnel employed abroad has increased by circa one percentage point each year. We anticipate further increases in the proportion of foreign employees resulting from the new investments in Poland and India.

Even if the proportion of employees in Germany drops, the main focus of our company will remain here, and we must maintain our competence and competitiveness in Germany at the highest level. Whether the absolute number of German jobs continues to decrease or will increase again, however, is related to the development of costs and productivity. Altogether, we must ensure that we create a competitive cost-mix.

At this point, I would like to thank all employees of the MAN Group both in Germany and abroad for their contribution, which has enabled the highly positive development of our company. Without their commitment and willingness to be flexible as well as take on extra work when necessary, we would not have been able to achieve what we have.

## 2.4. A good year for our stockholders

Ladies and gentlemen, MAN's positive business developments and greatly increased profits have made 2005 a good year for you, our stockholders, as well. An important index of this is the earnings per share – which grew from €2.08 to €3.04. We see this as a good basis for raising our dividend – a basis that corresponds to our flexible, profit-oriented dividend policy. The Supervisory and Executive Boards will thus propose a dividend per share of €1.35 for 2005.

The price of your stock has also developed well in 2005 – with a plus of 59%, MAN was clearly better than the DAX. A glance at the long-term curve shows a positive balance as well.

While the DAX rose annually on an average of 9.1% over a ten-year period, MAN common stock rose by almost 12% annually in the same period. This development is even more marked over the five-year period, and the trend steadily continues in the current year.

## 2.5. Financial situation

The positive developments in operating profit have also improved the financial situation of the Group as a whole. Despite higher costs of investments, free cash flow doubled from nearly €0.6 billion to over €1.2 billion. Increased prepayments were one contributing factor here, especially for Industrial Services and Printing Systems.

These positive developments have allowed us – as announced – to endow our newly created Pension Trust for the first time with €500 million.

We are often asked how we wish to deploy our growing liquidity and financial means. We have defined a clear series of priorities: Primarily, we are looking for industrial uses for these funds, e.g. making investments that ensure profitable growth in our business areas. We are at this time not excluding acquisitions. As long as we have no opportunities for this, however, we will continue to endow our Pension Trust to fully cover all capital liabilities in order to externally finance our pension plans and minimize future risks to old-age benefits.

Another use is the expansion of sales financing. Afterwards, we will return to such topics as special distribution of funds or stock buybacks.

Today, we are happy to say that even a large acquisition would not be problematic for us – at least in financial terms – due to our healthy balance sheet and high creditworthiness. But the main questions in such cases would be what industrial and commercial synergies we could expect and whether we could continue to achieve our profitability targets.

## 3. Strategy 2005

Ladies and gentlemen, the central tasks the Executive Board saw itself faced with last year was developing strategic concepts for rapidly overcoming our weaknesses, giving the Group a future-oriented structure and effectively managing the company. It was clear to us that we had to get better – faster.

With our guiding principles, we have created an important orientation.
- Every area must be able to develop itself further within the Group.
- Every area must measure its performance against its best competitor.
- Cross-subsidization and loss makers will not be tolerated.

To achieve our profitability targets, we had defined a structural program for lowering costs by €300 million, based on 2004 values. We accomplished the first part of this, namely: eliminating loss makers. We had these in the Sheet-fed Presses and Diesel Engines England units and in our subsidiary MAN Technologie. The second part, making cost improvements of circa €200 million is being realized and on track. The largest share of this, namely €150 million, must be generated by the Commercial Vehicles area. I will discuss this in more detail later.

### 3.1. Industrial Governance

The Executive Board began the "Industrial Governance" project in early 2005. The primary concept behind this project is that a company with a number of corporate areas needs a management concept with clearly defined roles distributed between central and decentral competencies. We are also convinced that our corporate structure, involving a management concept in which strategic industrial competence is anchored as well, is superior to a system of purely financial control.

A leadership culture based on our brand values of reliability, innovation, dynamic strength and openness is the foundation for three leadership areas: Strategy & Structure, Leadership Supply and Controlling. In brief, Industrial Governance will centralize strategic leadership and strengthen the operating responsibility of the business areas. The system has been implemented to a large extent and the concomitant changes are taking place.

In **"Controlling"**, we place less value on tables and numbers, concentrating rather on "true" controlling, i.e. controlling that maintains an understanding of underlying developments combined with a clear knowledge and effective pursuit of all goals – including non-financial indicators as well. I truly believe that we have created company-oriented controlling that effectively supports our strategic goals.

In regard to **"Leadership Supply"**, we have introduced periodic management audits based on uniform criteria. These are an instrument for better evaluating and optimizing the deployment of our managers. A new compensation system strengthens results-oriented management and is oriented to our new profitability targets.

In the **"Strategy & Structure"** area, we have introduced a well-founded process. At the beginning of the year, the Management Board meets for a closed, several-day-long strategy conference. It discusses and determines the basic strategy and mid-term goals of the Group as well as the orientation and goals of the business areas. In July, the complete area strategies are presented; these then form the basis for corporate planning.

### 3.2. Strategy discussions

This year's opening strategy conference concerned itself with a basic subject: is our Group correctly positioned for the growing market challenges and globalization? Can we enable every one of our areas the chances it needs for optimal development as well as achieve our goals on a permanent basis?

In our discussions, we all reached the same result: that under the current competitive situation and possible consolidation processes, we cannot afford to do this to the necessary degree for Printing Systems within the Group.

We came to the conclusion that MAN must focus more on areas related to transportation or which support these. We call this "Transport related Engineering". Global competition requires high profitability, high investments and highly focused management capacities. We thus decided to sell MAN Roland to an investor with the financial weight to give this company what it needs for its continued development.

Allianz Capital Partners is such an investor. ACP's main goal is to help MAN Roland become a more competitive, profitable company that is ready for an IPO in three to five years. Printing presses have a long tradition at MAN – over 150 years. That fact made taking this step difficult for us. But we had to make this decision in the interests of the future of MAN Roland and the MAN Group.

### 3.3. Key topics of the MAN Roland sale

The details of the sale are that we will sell 100% of MAN Roland to a new holding company, in which we will hold 35% equity. There will be no negative effects for MAN Roland employees or Printing Systems customers; business will go on as usual. According to due diligence, the enterprise value of our subgroup is €856 million. It is our opinion that this represents a fair price; we are supported in our opinion by external evaluations as well. By investing in the holding company we will also profit from the company's future increase in value. We believe that we have found a good solution for MAN Roland, for the MAN Group and thus – for you as stockholders.

I wish Mr. Finkbeiner, his colleagues on the Board and all MAN Roland employees a great deal of success and good luck for the company's new era.

### 3.4. The new MAN

The new MAN will thus concentrate on the areas of transportation, engines and energy. According to the 2005 figures, MAN is now a Group with 49,000 employees and sales of circa €13 billion.

Commercial Vehicles is the dominant Group area followed by Diesel Engines and Turbomachines in the manufacturing segments. With their strong international involvement and competence handling major projects, Industrial Services will provide more overall support for the Group.

### 3.5. Commercial Vehicles

We will continue to internationally develop and strengthen the profitability of the Commercial Vehicles area – which is primarily present in Germany and Europe – also as preparation for possible future cooperative ventures and acquisitions. By developing new products we pursue the clear goal of positioning MAN vehicles as premium products – with growing success. Simultaneously, we cooperate with other manufacturers to achieve the cost benefits that accrue from producing high numbers of particular components – when these are not decisive for our brand identity.

To improve our cost structure in Europe and better serve the rapidly growing Eastern European markets, we are building a truck assembly plant close to Krakow costing around €90 million. Construction is on schedule; we anticipate production start for mid-2007.

India is considered to be one of today's most rapidly growing developing countries; one with a great need for transport capacity. We have thus formed and officially inaugurated a joint venture with the Force Motors company – with whom we recently completed a cooperation agreement – for building heavy trucks. We developed an adapted series for this joint venture – the MAN Cargo Line – specially for the needs of emerging countries. We estimate annual production of 24,000 trucks, half of which will be sold in India and the other half by our sales organizations outside of India.

One of the focuses of our cost reduction plan is Commercial Vehicles. In regard to product margins, we have already realized our plan to a great extent, for example with new engines and modularization of vehicles series. To further increase productivity and decrease personnel costs, we will implement a number of measures this year and next year – for example in indirect areas such as logistics and material supply.

### 3.6. Diesel Engines

Our Diesel Engines area is currently the world's largest provider of large two-stroke diesel ship engines and the second largest provider of large four-stroke engines. In this area as well, improving cost efficiency and strengthening service activities are central objectives. An important step in this regard is more strongly integrating the companies in Germany, Denmark, England and France.

Here, we will convert the MAN B&W Diesel AG in a SE, that is, the legal form of the European Union. This process is almost complete. Our Diesel sector will then be called MAN Diesel SE.

MAN Diesel will develop a joint venture with MAN Ferrostaal to ensure even stronger plant construction competence in the growing market for gas and diesel power facilities. In addition, we will now develop the "High-speed Engine" business field, which we had wished to strengthen with the purchase of MTU

Friedrichshafen, ourselves, in part in close cooperation with our Commercial Vehicles engine plant in Nuremberg. India is also an important topic for the Diesel area – we are currently opening a design center there with circa 50 engineers, which will take over construction work in close cooperation with our Danish development department.

### 3.7. Turbomachines

We are also pursuing a growth strategy in our Turbo area. We will more frequently supply complete turbo machinery trains and strengthen our profitable service. We see good potential for growth in technologies related to the synthetic fuels GTL (gas to liquid) and BTL (biomass to liquid). In this context, we have assigned DWE, our chemical reactor specialist, to MAN TURBO, which can now offer comprehensive technology know-how in this area. We recently also took over the steam turbine branch of Blohm und Voss Industrietechnik in order to strengthen our offers of complete turbo machinery trains.

### 3.8. Industrial Services

Industrial Services, our subsidiary MAN Ferrostaal, will be further focused and more strongly integrated into the MAN Group. With its commercial experience and worldwide relationships, and as project managers for complex activities, it can support the manufacturing business areas in their international expansion.

In this function, Ferrostaal should take the lead in developing so-called MAN houses, for example in Dubai and Beijing. This will enable us to strengthen MAN's presence in these fast-growing regions. Already, MAN Ferrostaal has successfully begun selling MAN Nutzfahrzeuge buses in Mexico.

Ladies and gentlemen, I think I have given you a good overview of our strategy and projects. I believe we now have the structure, the instruments and the right plans to put the MAN Group in its new profile at the head of its class.

## 4. Outlook

Of course, however, you also want to hear from us about the outlook for the coming year. As you could see in our quarterly report, our start in the current year was very positive. Sales increased by 10%; operating profit shot up 77% to €214 million. These positive developments continued in April as well. In the four months from January to April, order intake jumped 13% to €5.6 billion; sales rose 4% to €4.2 billion.

How do things look for the future? According to current prognoses, the global economy will continue to develop well, and in Germany, the signs are also good. Growth predictions have been raised and we expect ongoing high demand for our products.

We thus anticipate higher order intake for Commercial Vehicles, both for trucks and for buses. One factor that also plays a role here is the stricter EURO 4 exhaust regulations that will take effect in October – many shipping companies want to stock up on EURO 3 vehicles shortly before. This trend will certainly slow during the course of the year – but we do not anticipate any dramatic drops.

We expect that MAN TURBO will also see clear growth in orders, especially from high investments in the raw materials industry. We also see potential for MAN Ferrostaal in this area. In regard to Diesel Engines, we predict order intake to stabilize at a high level.

**Forecast for 2006**

All together, orders this year should almost reach 2005 levels, that is, nearly €16 billion, even though this reference value contains the major contract of €1.4 billion from the British MoD.

In sales, we assume we will see an increase of circa 5%. Here, however, the fact must be considered that MAN Ferrostaal sales will decrease due to reorganization of the steel business.

Ladies and gentlemen, one year ago we formulated our goal of improving profitability to such an extent that we would achieve our profitability targets of 6% and 18% by 2007. Due to the positive economic and business developments, we predict even higher results: We now expect – if there are no negative economic surprises – that we will surpass the 6% ROS mark in 2006. Our ROCE, which climbed over the 18% mark in 2005, will remain over the target line.

This means that for the first time, we will surpass **both** of our profitability indicators and thus, come much closer to our objective of maintaining our profitability targets in an average economic cycle.

You, our stockholders, have already confirmed that you trust us to make further clear improvements.

But we know that the current price does not only have to do with our good performance until now, but above all, with your high expectations for our future development.

You can be certain that we will continue to work forcefully for the future success of the MAN Group – for our customers, for our stockholders and for our employees.

Thank you for your attention!

MAN Aktiengesellschaft
The Executive Board

The speech given by Håkan Samuelsson at the annual general meeting will be available at www.man-group.com.