



## Annual General Meeting of MAN AG April 3, 2009 at the ICM (Munich International Congress Center)

Munich, April 3, 2009

### Report by the Chairman of the Executive Board Håkan Samuelsson

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Content	Page
1. Welcome	1
2. Review	1
3. Starting out in a strong position	2
4. Structure focused on transportation and energy	3
5. Market position and technology lead	4
6. International growth potential to be further leveraged	4
7. Robust financial position	6
8. Stock repurchase and Authorized Capital	6
9. Development of highly-qualified employees	7
10. MAN a "top employer"	7
11. Handling lower sales with caution	8
12. Sustainably efficient solutions	9
13. New business opportunities	10
14. Outlook	11

**MAN AG**  
Landsberger Str. 110  
80339 München  
(Munich, Germany)

**Head of  
Corporate Communications**  
Andreas Lampersbach

**Press Officer**  
Dominique Nadelhofer

Phone +49. 89. 36098 - 111  
presse@man.eu  
www.man.eu

### 1. Welcome

Dear Shareholders, Dear Guests, Ladies and Gentlemen. It is my pleasure to welcome you to the 2009 Annual General Meeting of MAN AG.

Today I would like to tell you about the previous fiscal year, the Company's current position and our prospective course, even if looking to the future is particularly difficult at the moment. I will also outline the agenda and the proposed resolutions.

### 2. Review

2008 was an extraordinary year for MAN – and I do not just mean the repercussions of the financial crisis. In 2008 we celebrated the Company's 250th anniversary, we saw key milestones in MAN's strategic development and we posted record earnings. This was not only made possible because you – the shareholders – placed your confidence in us, but also because we were able to rely on highly qualified and motivated employees, whether in sales, production, development or administration. I would just like to take the opportunity to sincerely thank the MAN employees scattered across 120 countries for this.

When we looked at our business performance this time last year, I was able to report booming markets, record orders and a global economic tailwind. But since then we have seen the wind change suddenly. Nowadays everyone is talking about the financial crisis, recession and uncertainty. As

The MAN Group is one of Europe's leading industrial players in Transport-Related Engineering, with revenue of approximately €15 billion in 2008. As a supplier of trucks, buses, diesel engines, turbo machinery, and special gear systems, MAN employs approximately 51,300 people worldwide. Its business areas hold leading positions in their respective markets. MAN AG, Munich, is listed in the DAX (German Stock Index), which comprises Germany's thirty leading stock corporations.



a result, economic stimulus packages and government bailouts for banks and industrial concerns are being debated.

Even MAN cannot escape this changed environment unscathed. We are seeing very weak orders for trucks and marine engines. We have made good use of the last few years to also prepare ourselves for more difficult times. The Group's focus was consistently narrowed to concentrate on transport-related engineering. We improved products and made them more eco-friendly, we opened new plants in markets of the future like China, India and Eastern Europe, and we expanded our service business. MAN thus took important steps towards developing the growth markets of tomorrow. The acquisition of Volkswagen's truck arm in Brazil means that we now have interests in all the BRIC countries. Long-term investments in research and development coupled with the expertise of our employees have both enabled us to strengthen our technological position and thus prepare the ground for further international growth.

We will continue to systematically pursue this course – this is important, particularly in difficult times. However we do need to adapt to the changes in the economic environment and act accordingly. MAN has more of a sound foundation to actively overcome the current situation than many other companies. Let me be more specific and provide you with six reasons for this:

1. MAN has enjoyed strong business figures over the last few years.
2. We narrowed MAN's focus to two strong business areas well-suited to each other: transportation and energy.
3. We have strong market positions and we are the technological leader in many areas.
4. We are represented in new growth regions worldwide.
5. We are on a sound financial footing.
6. We have clear management structures and motivated employees.

### **3. Starting out in a strong position**

Thanks to the success it has enjoyed over the past few years, MAN is in a strong starting position. Despite the economic slump at the end of the year, we increased our revenue for 2008 by 6% to €14.9 billion. The Diesel Engine, Turbo Machinery and RENK businesses in particular picked up pace, recording growth rates of around 20%, while Commercial Vehicle revenues remained at a high level. As in the previous year, more than



100,000 commercial vehicles were sold. Our market share for trucks in Europe was boosted to 16.6%.

At the same time, operating profit was again higher than in the previous year. It climbed 11% to €1.7 billion, making it the best profit that our company has ever seen. Return on sales rose to 11.6% which meant that we significantly exceeded our target return – as must be the case in good times. MAN was the most profitable industrial concern in the DAX 30 in 2008.

All our business areas played a role in this. At 10%, Commercial Vehicles' return on sales remained at a high level while Turbo Machinery and Diesel Engines reached new record highs of 11.1% and 15.4% respectively. Earnings per share from continuing operations rose to €7.76. We thus made the most of the boom to shape up.

However a 21% drop in our order intake to €14 billion heralded the change to come. While the fourth quarter saw demand for both trucks and marine engines in particular fall substantially, orders for power plants and turbo machinery brought stabilization.

#### **4. Structure focused on transportation and energy**

These figures do not just reflect last year's success. They also show that we were right to focus our structure on Diesel Engines and Turbo Machinery alongside Commercial Vehicles.

The sale of our majority stake in MAN Ferrostaal to Abu Dhabi-based investor IPIC completed the focusing process for the MAN Group that we began in 2005. The transaction was completed on March 25. MAN is thus focusing on business areas with high production levels that also offer sustainable opportunities for growth.

Experience shows that the markets for transportation and energy have different economic cycles, which ensures balance. But it is also important for us to be able to leverage considerable synergy effects between the two fields.

The key role that expertise from truck production played in the introduction of synchronized production systems for large-bore diesel engines is just one example of how we leverage common competencies within the Group. Through this, we intend to make assembly of the ten-day engine a reality by 2010, cutting production throughput time by 70%. Another example is the option to employ joint diesel engine and steam turbine combinations in marine propulsion systems. Using the energy from exhaust



gases that normally goes to waste can save up to 12% fuel. Furthermore, the high speed engines business will now be part of MAN Diesel instead of MAN Nutzfahrzeuge. This puts MAN Diesel in a position to offer engines ranging from 150 hp right through to 110,000 hp for all conceivable applications, from emergency generators through luxury yachts, container and cruise ships to large power plants.

An open corporate culture and job rotation support such exchange. As you can see, ladies and gentlemen, the business operations complement each other well and MAN has become stronger as a whole.

## **5. Market position and technology lead**

When it comes to trucks, we traditionally enjoy a strong position in the development of engines. This competency enables all emission standards on the global market to be fulfilled efficiently. The TGX, our heavy truck model in Europe, and the CLA, which is tailored to the special needs of the Indian market and other emerging nations, are two examples of this. You can examine both vehicles outside the hall.

We are especially able to accommodate the trend toward high environmental standards in our Bus business. With particularly low-emission engines and hybrid buses set to go into series production soon, MAN is leading the way here.

## **6. International growth potential to be further leveraged**

We also intend to specifically leverage growth potential in markets outside of Europe. Our strong internationalization is reflected in the growing proportion of revenue generated abroad, which is currently 75%, as well as in a global network of production facilities, service centers and suppliers. MAN's presence is increasingly being strengthened in the BRIC countries – in other words in countries where the need for transportation and energy is set to grow in the long term.

We have been the clear leader on the marine engine market in China for many years through MAN Diesel – a position that we still enjoy. The country is also home to our own facilities for the production of turbo machinery which we have been operating since last year. Russia has seen us rise within just a few years to become its largest importer of heavy trucks. A completely new market for MAN Nutzfahrzeuge is India, where we raised our stake in the joint venture with Force Motors to 50% last year and will now be stepping up efforts to introduce the vehicles developed for the country into the market.



The acquisition of VW Truck & Bus in Brazil was another important strategic milestone for the Company. The purchase transaction was completed on March 17, 2009. Our new subsidiary, MAN Latin America, leads the country's market for trucks, which allows MAN to enjoy a very strong position in Brazil and other Latin American countries. We will combine the high competence that already exists with our technological expertise and specifically leverage synergies. The MAN brand will also be strengthened in South America in the medium term, though we will be keeping the VW brand name for current products, of course.

MAN has also become more international. For this reason, we propose that MAN AG's legal form be changed to that of a *Societas Europaea*, a European stock corporation, called MAN SE. This European concept will enable us to better integrate our national companies in the future and encourage an international corporate culture as a basis for further growth.

As an SE, MAN will continue to be domiciled and headquartered in Munich. The Supervisory Board will be reduced to 16 members but it will still have an equal number of stockholder and employee representatives.

MAN SE's Executive Board will also be reinforced by a member responsible for human resources. Jörg Schwitalla, the MAN Group's Senior Vice President of Human Resources, will be proposed to the Supervisory Board as the new Executive Board member responsible for employee relations. The employee representatives of our European sites will also take seats on the Supervisory Board, thus reflecting the international diversity of our workforce.

We have agreed this change of legal form and the creation of a European works council with the employee representatives. This was very important to us. I would also like to emphasize that changing the legal form will not change the legal entity. It will remain the same. Stockholders' shareholdings in the Company will thus continue unchanged, as will the respective rights of our common and preferred stockholders.

Everything will essentially remain the same for you, as stockholders. Further details can be found in the Draft Terms of Conversion and the Agreement with the Special Negotiating Body, both of which are included in the Invitation. Our MAN Diesel subsidiary made the change to become an SE and has already had positive experience with the new legal form. For this reason, I would ask you to approve our Company's change of legal form to MAN SE.



## 7. Robust financial position

Ladies and gentlemen, the financial stability of companies – sometimes even of entire states – is more doubtful than ever at present. The consequences of today's economic developments are also affecting our current cash flow situation. Free cash flow for fiscal year 2008 amounted to minus 570 million euros. This is due essentially to an increase in working capital as well as the expansion of sales financing.

With an equity ratio of 32.6%, however, MAN AG is still solidly financed. As a Company that enjoys high value added and strong capital resources we are not directly affected by credit restrictions. Neither will we have to renegotiate any major credit lines over the next two years. Good credit ratings from third parties ensure access to a broad funding base. Our working capital amounted to €1.5 billion and our free cash flow to -€570 million. Both of these figures are due to the temporary increase in stock-piled trucks and the higher sales financing.

In order to grant you – the stockholders – a share of MAN's sound performance in 2008 and prepare MAN for the global recessionary trend at the same time, we propose a dividend of €2 per share. Based on the closing price at the end of 2008, distribution of this amount corresponds to a dividend yield of 5.2%. The profit of around €40 million carried forward and the revenue reserves recognized both strengthen our balance sheet. This means that we have the necessary funds left to finance international growth.

## 8. Stock repurchase and Authorized Capital

The number of shares outstanding also remained unchanged in 2008. We did not make use of the authorization to purchase the Company's own shares. Therefore MAN AG does not hold any treasury shares. The current authorization ends in October 2009. We do not see any need to repurchase stock at present but we ask you to renew this authorization for 18 months. It will enable us to retain the existing scope to respond quickly and flexibly when this is in the interests of our Company and thus our stockholders.

By extending the existing Authorized Capital, we wish to open up new options for us. Our managers are currently paid performance-related salary bonuses. We wish to supplement this system with a stock component. Instead of paying our managers their bonuses purely in cash, we should also reward them with MAN shares, thus involving them more in the long-term performance of our enterprise value. Beneficiaries will either be able to buy MAN shares at reduced prices or will receive them as a result of



MAN covering the capital to be invested from any profit generated. The applicable caps on management bonuses will be complied with.

For this reason, we ask you to authorize the Executive Board to employ up to €4 million of Authorized Capital 2005, which was resolved at the Annual General Meeting on June 3, 2005, and to disapply stockholders' subscription rights accordingly for this purpose.

In view of the small authorized amount compared with our share capital and the intended cap on shares issued annually at no more than five per mille of the share capital, the dilution effect that would occur for stockholders is minimal.

## **9. Development of highly-qualified employees**

In order for MAN to continually develop at a high level, we need qualified and motivated employees.

I would like to cite some HR development examples:

- We stand for sexual equality and want to see more women in management positions. Therefore we are pleased to see MAN included in the Gender-DAX, a list of DAX companies strongly committed to equal opportunities for women.
- We will continue to employ a high proportion of trainees.
- Our new international graduate program offers graduates the opportunity to prepare for a career at MAN.
- We cooperate with renowned universities as part of our Campus Initiative. Munich Technical University and the University of Dortmund are our "preferred partner" universities, for example. Through them we offer series of special lectures, student projects and scholarships. This enables us to encourage students to take an interest in our business at an early stage and to familiarize them with our Company.

## **10. MAN a "top employer"**

Ultimately, we can only appeal to the best if we foster an open corporate culture, if we represent our values credibly and if we offer attractive duties and development opportunities. We want our employees to do more than just perform – we also want to challenge them. We believe that attractive jobs do not just mean interesting duties but that they also involve assuming responsibility and cooperating within networks.



MAN being named a "top employer" in a study carried out throughout the whole of Germany last year is a visible outcome of this. Development opportunities for engineers and systematic measurement of potential swung the decision in our favor. We will continue to work on placing MAN in an attractive position, enabling us to secure a steady stream of the best candidates. This is also imperative for our success in the future.

Another HR move is the new MAN Profit-Sharing and Pension Plan. This plan provides our employees with a performance-related bonus payment and defined contribution pension system. This new system was adopted with retroactive effect from January 1, 2009. It offers significantly higher contributions and the option to make additional, voluntary payments. A good, sustainable occupational pension plan is becoming more and more important for everyone. This step shows that we take our responsibility to our workforce seriously, which is more important than ever in uncertain times like these.

## **11. Handling lower sales with caution**

In addition to long-term strategic measures, we also have to respond quickly and systematically to the dramatic economic slump that we are currently facing. We have already taken several measures to this end:

- We are not renewing fixed-term contracts or the contracts of subcontracted employees in truck production when they expire. Positions vacated as a result of staff turnover will not be filled again automatically.
- We are also making use of our flextime accounts and recouping deficit hours.
- Introducing a shorter working week temporarily has been another means of cutting costs. The government extended this option to 18 months, which was a helpful move. MAN does not want to part from employees who make our success possible and whose expertise we will need again soon.
- Overheads are also being reduced through leaner structures and cost savings in maintenance, consultant services, travel and IT projects, for example.
- By employing these measures we will save around €500 million overall Group-wide.

We also need to critically analyze and adjust our investment plans given the new situation. But as a technology-driven company we cannot afford to respond excessively and without reflecting. We will continue to pursue



our strategy which includes strengthening our sales and service network further in addition to continuous research and development.

## **12. Sustainably efficient solutions**

An important part of this strategy is also a product portfolio that secures long-term success – for us and for our customers. Through its products, MAN aims to minimize costs over entire lifecycles. This primarily requires high product quality, which has always been MAN's trademark.

Transportation efficiency is another key word – it means handling transportation while conserving resources as much as possible. This enables us to serve the interests of our customers and fulfill our responsibility to the environment. Developing new engine technology requires extensive skills and experience, both of which MAN possesses.

The further development of diesel engines for commercial vehicles is an example of this. Some of our engines have fulfilled the particularly strict, voluntary EEV emission standard since 2007. Buses with these engines are especially eco-friendly and are financially attractive for our customers at the same time because they benefit from national requirements.

MAN's newly developed municipal buses with hybrid drives which will go into series production soon also show that improved technology is the best way to protect the environment. It enables up to 25% fuel to be saved.

MAN has a common rail injection system at its disposal for large-bore engines that is very effective in reducing emissions under different operating conditions. We can also refit MAN diesel engines with this system. This is particularly important in view of the next stage of maritime emission regulations which will enter into force in 2011.

However the consequences of climate change also require methods and technologies that are completely new. MAN Turbo Machinery is the market leader in carbon dioxide storage, for instance, in the compressors with magnetic bearings that are required for the process.

And MAN's RENK subsidiary also supplies newly developed high-performance gear units for multi-megawatt wind turbines, meaning that RENK enjoys a presence in the growth market for wind energy generation.



### **13. New business opportunities**

As you can see, the higher level of interest in sustainability offers MAN a large number of promising business opportunities. Our technological expertise and our years of experience on the market enable us to make the most of this – to the advantage of both MAN and the society that we live in.

To finish, I would like to cite a few concrete examples of how we have made progress in our business areas:

- In Commercial Vehicles, we further boosted our market share with a range of new products and systematically developed new markets like Eastern Europe, India and South America. Expanding our after-sales activities allows us to strengthen customer loyalty, enjoy follow-up business and generate good margins.
- Sales in our Diesel Engines business are supplemented by our PrimeServ concept which includes maintenance and repair work as well as the provision of spare parts, upgrade solutions and training. For long-lasting products like marine diesel engines and power plants, this is especially important. In addition, the business is becoming less dependent on economic fluctuations since a higher level of MAN diesel engines are in use.
- We also generated additional business in Diesel Engines with our Power Plants unit, which is showing dynamic growth. Operating highly efficient diesel power plants is the best solution for reliable electricity generation in a large number of countries. In 2008, for instance, we secured a contract from the energy provider Electricité de France (EdF) to build six turnkey power plants totaling €1.3 billion.
- Last year, we opened a new plant in China in the Turbo Machinery business which brings us closer to the market and the customers in MAN Turbo's most important sales market. We strengthened our position in the key service business significantly through our new MAN Turbo PrimeServ concept along with our role as a full-service provider over the entire lifecycle of the machinery.
- MAN Turbo is already playing a very successful part in the trend toward alternative energy concepts on the market for GTL (gas-to-liquid) plants. As the market leader, we supply primary key components for GTL plants. The further development of comparable processes such as the conversion of biomass into liquid fuels also opens up additional business potential for us.



## 14. Outlook

The outlook for 2009 remains uncertain but it is clear that this will be a very difficult year. The truck market is very weak at present and is suffering from significantly lower sales volumes. A turnaround is not yet in sight. We must implement the cost-cutting measures consistently for this reason. However the new MAN Latin America subgroup has strengthened our structure and we are in a position to tap into new growth potential.

The Diesel Engines, Turbo Machinery and RENK business areas still have a more stable order backlog. Because of this, they will also deliver high revenues and earnings in 2009. This stabilizes the entire MAN Group and means that we are in a better position overall than many other industrial concerns.

Even though 2009 will be a difficult year, we will continue to systematically work on shaping MAN's strategy. It helps that we are starting in a strong position. I am mainly referring to our technological strength, our international growth and our sound finances. I would be delighted, ladies and gentlemen, if you would continue to place your confidence in us and to accompany us on this successful course.

Thank you for your attention!