02/ Group Management Report

The MAN Group's Business Activities and Strategy

Sustainable value creation by focusing on transportation and energy, profitable international growth, customer orientation, after-sales activities, and technology leadership

The MAN Group

The MAN Group focuses on transportation and energy and is one of Europe's leading commercial vehicle and mechanical engineering players. The Group aims to grow profitably around the world in its two business areas, Commercial Vehicles and Power Engineering, and to increase the value of the Company. Customer orientation, the ongoing expansion of after-sales services, and technology leadership are key to achieving these goals.

MAN companies hold leading market positions and rank in the top three in their respective markets. The Group operates through four divisions – MAN Truck & Bus, MAN Latin America, MAN Diesel & Turbo, and Renk – with a workforce of around 54,300 employees in over 150 countries. The MAN Group is headed by MAN SE, which is the Group's Corporate Center. In 2012, the MAN Group generated revenue of €15.8 billion and an operating profit of €964 million. As a result, its return on sales decreased from 9.0% in the previous year to 6.1%.

Overview of the business areas

Commercial Vehicles business area

MAN Truck & Bus is one of Europe's leading manufacturers of commercial vehicles and has production facilities in four European countries, South Africa, and India. Its products range from general-purpose trucks with a gross vehicle weight of 7.5 to 44 t and special-purpose vehicles with a gross train weight of up to 250 t, through buses and coaches, to diesel and gas engines for on- and off-road uses. In conjunction with this, MAN Truck & Bus offers customers an extensive range of services from a single source. MAN and NEOPLAN customers worldwide benefit from 1,442 locations offering service and vehicle maintenance. MAN Truck & Bus sold 74,680 trucks, 5,286 buses, and 8,664 engines in the 2012 reporting period. Revenue amounted to €8.8 billion, while its operating profit was €225 million.

MAN Latin America is Brazil's largest truck manufacturer and also the country's market leader for trucks with a permissible gross vehicle weight of more than 5 t. It produces trucks and buses in Resende, Brazil, and Querétaro, Mexico. MAN Latin America staff at the Resende plant, which has a modular production system, work together in close partnership with suppliers. MAN Latin America has a nationwide sales and service network in Brazil and neighboring countries. Its vehicles are primarily sold in the Latin American and African markets. It delivered a total of 56,305 trucks and buses in 2012. Revenue amounted to €2.9 billion, while its operating profit was €229 million.

Since 2009, MAN SE has held a strategic interest of 25% plus one share in Sinotruk Ltd., Hong Kong/China (Sinotruk). In addition, it has a long-term strategic partnership agreement with Sinotruk. The key feature of the partnership is the combination of the advanced technology and expertise offered by MAN and Sinotruk's local knowledge, existing production facilities, and extensive sales network in China. As part of the agreement, MAN licenses its TGA truck technology, including engines, vehicle chassis, and axles to Sinotruk as the basis for producing a new heavy truck series. Sinotruk and MAN presented their new joint truck brand, SITRAK, at the "Auto Shanghai 2011" show. It is scheduled to go on sale in 2013.

Power Engineering business area

MAN Diesel & Turbo is one of the world's leading developers and manufacturers of large-bore diesel engines, turbo compressors, industrial turbines, and chemical reactor systems. The company commands a strong market position in the development of two-stroke diesel engines for propulsion systems in large ships, in the development and manufacture of four-stroke diesel engines built into smaller vessels and used as auxiliary engines, and in two- and four-stroke engines for electricity generation at power plants. In addition, MAN Diesel & Turbo delivers turbochargers for large-bore diesel engines as well as complete turnkey energy recovery plants such as combined heat and power plants. The company manufactures four-stroke engines at its sites in Germany, France, and India. Two-stroke engines are built by licensees. As one of the leading manufacturers worldwide, MAN Diesel & Turbo also offers a wide range of turbomachinery for various sectors such as oil and gas, refineries, and chemicals, as well as for producing industrial gases and electricity. A comprehensive after-sales business covers the company's entire product range. MAN Diesel & Turbo generated revenue of €3.8 billion in 2012 and its operating profit was €437 million.

Renk is a listed subsidiary of MAN SE and a global manufacturer of special gear units, propulsion components, and testing systems. MAN holds 76% of the company's capital. Renk is the global market leader in different sizes tracked vehicle transmissions of as well as in slide bearings for electrical machinery. It also has an excellent position in the market for special gear units used for marine and industrial purposes. Its product portfolio is rounded off by an extremely wide variety of different types and performance categories of 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 €0.5 billion in 2012 and its operating profit was €66 million.

The MAN Group's strategy and strengths

Focus on transportation and energy

In recent years, MAN has successfully implemented its strategic focus on the transportation and energy market segments. Megatrends such as globalization and the associated increase in global trade, population growth, urbanization, and climate change show that these are forward-looking, high-growth sectors. MAN offers its customers tailored solutions, in particular to reduce emissions and fuel consumption, in its Commercial Vehicles and Power Engineering business areas.

Its global presence and broad portfolio of advanced products and services are an integral part of MAN's corporate strategy. These give MAN the stability to largely absorb fluctuations in individual markets and to be prepared for the increasingly global nature of competition. Customers and their needs are at the heart of all of the company's business activities. The continual expansion of the after-sales business and the Group's efficiency and technology leadership are key success factors. This strategic orientation paves the way for sustainable value creation – the MAN Group's primary objective.

Profitable international growth

Global trade volumes will continue to grow in the coming years, which will translate into rising demand for transportation and energy. It is important to meet this demand locally. At the same time, changing conditions require a broad-based international product portfolio so as to counter fluctuations in individual markets and changes in the environment. Continuing its internationalization activities therefore remains a major component of MAN's corporate strategy.

Europe is still MAN Truck & Bus's core market. The company is continuing to vigorously expand its strong market position here, while keeping an eye on profitability. The Company is also identifying and specifically leveraging potential outside of Europe, with a focus on the BRIC countries and in particular the premium segment there. Efficient transportation solutions, reliable and robust vehicles, and customer satisfaction form the foundation of the strategy.

Russia is a key sales market for MAN. MAN is extending its market position there with a new plant in St. Petersburg. In India, MAN Truck & Bus took over the previous joint venture with FORCE Motors Limited, Akurdi/India (FORCE) in 2012. The acquisition transferred sole responsibility for the production and sale of the MAN CLA in and outside of India to MAN Truck & Bus.

2012 saw the launch of the MAN TGX in Brazil under the MAN brand, which was specially enhanced to meet the needs of customers in Latin America. MAN Latin America has already led the market for trucks over 5 t there for ten years with the Volkswagen brand, offering products tailored to emerging economies in the budget market. This leadership claim is being extended to Latin America.

Global population growth is driving higher demand for energy and consumer products. In many regions of the world, demand for decentralized power plants is increasing due to the lack of nationwide power grids. At the same time, rising prosperity is leading to increased consumption of gas- and oil-based products such as plastics and fertilizers. MAN Diesel & Turbo offers a broad product portfolio in the areas of energy generation and industrial plants, and is strengthening its global organization in order to meet this demand. The goal is to be able to act on a local level in line with specific market requirements and to optimize production and development networks around the world. In 2012, MAN Diesel & Turbo expanded its Aurangabad location in India, creating manufacturing capacity for 25 small-bore diesel engines for the first time. The Changzhou production facilities in China were also continually expanded. The first steam turbine built there was delivered in 2012.

Expanding its international presence and activities remains a key issue for Renk as well. In 2013, Renk will open an after-sales outlet in Shanghai so that it can optimally cater to the growing demand for service in China. In addition to the European wind energy market, the construction of offshore wind farms in South Korea and Japan offers attractive opportunities. In light of the excellent order situation for marine gear units in the United States, Renk expects to see a tangible expansion in service activities in the medium and the long term.

Customer orientation

The MAN Group's business activities revolve around products and services designed to meet the needs of our customers and markets, and which combine quality, reliability, and cost-effectiveness.

Services for commercial vehicles are becoming increasingly important. MAN Truck & Bus is actively accommodating this customer need as a manufacturer in the premium segment. New to its portfolio is MAN Solutions, an integrated service and mobility program, which integrates all types of services, including financing, repair and maintenance, driver training, the MAN TeleMatics system, roadside assistance, and the new MAN ServiceCard. This offers customers a comprehensive concept for reducing vehicle operating costs, as well as improving operational safety and vehicle availability. The MAN TeleMatics system is an integral part of this, providing the data required to optimize fleet management and logistics.

The new NEOPLAN Jetliner, which was launched at the 2012 IAA Commercial Vehicles Show, can be used as both a public service bus and a coach. This doubles its earnings potential for customers.

As part of its customer orientation strategy, MAN Latin America offers its customers products that are specially tailored to the demands of the Brazilian market under the motto "Less you don't want, more you don't need." It can also develop and implement custom solutions at a special vehicle modification center. Every year, the company is recognized for its innovative concepts and close proximity to customers.

MAN Diesel & Turbo conducts annual customer surveys so as to optimize its products and services to meet customer requirements. Driving forward regionalization so as to be close to customers and to be able to build up solid, sustainable customer relationships is also extremely important. The MAN PrimeServ brand's 116 locations ensure service on the ground, 24 hours a day, 365 days a year. Customers are trained in the products at 12 PrimeServ academies. Further expansion of the service locations is scheduled.

Renk's activities are also centered on its customers. A majority of the products are developed together with them. The optimal solution in each case is as individual as the goals and requirements of the customers themselves. The projects draw on many years of experience and comprehensive expertise. Customer support is provided from the initial idea through the detailed planning phase, production and assembly down to delivery. Additionally, experienced fitters are made available to the customer for servicing products in operation.

Continuous expansion of after-sales area

The strategic focus on the after-sales business is proving its worth in times of increased competition and changing market conditions. A long-term, reliable partnership with customers ensures satisfaction in a business model built on sustainability. Expanding the after-sales business is thus a major component of MAN's strategy.

Extensive investment in after sales, such as in increasing the availability of spare parts, the regular auditing of new agreements and standards, and the introduction of new workshop planning tools is lowering vehicle downtime for MAN Truck & Bus's customers. In addition, market-driven prices for spare parts, the expansion of the exchange parts offering, the introduction of the MAN ServiceCard, and long-term maintenance and repair agreements are increasing the cost-effectiveness of original MAN parts and cutting repair costs. MAN Truck & Bus will offer its customers services for trucks, bodies, and semi-trailers from a single source in the future.

A goal at MAN Latin America is to maintain its leading customer support position. The company boasts a strong dealer network in Brazil with 155 exclusive sales and service partners. It is the first to offer after-sales services on the customer's own premises through a special maintenance agreement.

At MAN Diesel & Turbo, the MAN PrimeServ brand offers customers the service expertise of an original manufacturer with a global presence whose extensive network means that it is represented in all key markets and major ports. This minimizes downtime. The full range of services does much more than simply supplying spare parts, though. Personnel training sessions and long-term maintenance and operator agreements are offered, as are extensive services such as upgrades to increase efficiency and reduce resource consumption for diesel engines, compressors, and turbines. For example, MAN Diesel & Turbo's service offering meets the special requirements of the oil and gas business. The extension of the service agreement with the Brazilian energy group, Petroleo Brasileiro (Petrobras), for an additional five years is an important illustration of this. This service agreement comprises corrective and preventative maintenance and operational support for 20 MAN gas turbine trains on four offshore platforms to the northeast of Rio de Janeiro.

Tailored advice and customized products are one of Renk's core competencies. This applies in particular to the after-sales business. Maximum reliability and low frequency maintenance are key development goals from product design onwards. The accessibility of components for which wear cannot be avoided also has to be taken into account. Maintenance concepts are created together with the customer to ensure that operations run as smoothly as possible. The service team offers flexible assistance in the event of an unexpected malfunction.

Technology leadership

MAN responds to the global challenges of protecting the environment and reducing fuel consumption and emissions by offering innovative solutions. MAN's goals of efficiency and technology leadership are designed to secure its position as a leading international manufacturer of commercial vehicles, diesel engines, turbomachinery, and special gear units in the future as well.

MAN systematically optimizes all key details of engines, gearboxes, and axles, as well as vehicle aerodynamics, and offers customer-oriented transportation solutions in the form of efficient commercial vehicles. The focus is on a further reduction in fuel consumption and emissions. At the same time, the development of alternative drive technologies and fuels is being driven forward, for example, hybrid drives for long-haul and urban truck transportation.

Due to the stricter IMO Tier III emissions regulations that will come into force in 2016, as well as the increasing global availability of natural gas, MAN Diesel & Turbo's development work focuses on developing new products and enhancing existing products, such as gas engines and turbines. New technologies for clean and efficient marine transportation were presented at the 2012 SMM (Shipbuilding, Machinery, and Marine Technology) shipbuilding fair. An example of this are its G-type two-stroke engines, which have ultra-long strokes, providing optimal support for slow steaming (i.e., saving fuel by reducing a ship's speed). In the same way as for marine transportation, emission limits for stationary power plants are also being tightened around the world. This led to the development of the new 20V35/44G gas engine for this segment, which was unveiled in 2012. At 10.6 MW, the single-charged engine has the highest output in its segment. The engine has an extremely high level of efficiency thanks to numerous innovative technological components.

Building on the expertise of its highly-specialized engineers, Renk has been the technology leader for tracked vehicle transmissions, marine applications, and standard slide bearings for many years.

See "Research and Development" for further information.

Sustainable value creation

MAN's strategic focus serves its primary objective of sustainable value creation and is thus the foundation for its business success. Profitability, growth, and sustainable corporate governance enable the Company to increase its long-term value. The basis for this is comprehensive and strategic management of all economic, environmental, and social demands placed on the Company. We identify future developments at an early stage and anchor these in our corporate strategy. Our product strategy revolves around customer needs and meeting ecological and economic requirements. The Company's employees are the foundation for this. MAN knows this and has set itself the goal of being a top employer. Responsible human resources development and compliance are firmly established at the Company.

Acquisitions and divestments

Acquisitions

On March 28, 2012, MAN Truck & Bus acquired all but one of the remaining shares of the former joint venture MAN FORCE TRUCKS Private Limited, Akurdi/India (MAN FORCE TRUCKS), from its Indian partner FORCE. The cost of these additional shares amounted to €150 million, while net cash acquired amounted to €2 million. This company, which was consolidated as of March 31, 2012, is being managed solely by MAN Truck & Bus under the name of MAN Trucks India Private Limited, Akurdi/India (MAN Trucks India).

Divestments

As reported, MAN and the International Petroleum Investment Company, Abu Dhabi/U.A.E. (IPIC), reached a settlement in November 2011 on the buyback of 70% of the shares of Ferrostaal GmbH, Essen (Ferrostaal, formerly Ferrostaal AG) for €350 million (IPIC settlement). Detailed information on the transfer of these shares to IPIC in March 2009 and on the legal disputes with IPIC and Ferrostaal is contained in the **note (6)** on "Acquisitions and divestments" in the Notes to the Consolidated Financial Statements.

The IPIC settlement took effect on March 7, 2012, at which point the agreement between MAN and MPC Industries GmbH, Hamburg (MPC), to sell all shares of Ferrostaal to MPC and a coinvestor (MPC purchase) also came into force. Ferrostaal has been part of MPC since that date. The litigation with IPIC and Ferrostaal has ended.

See the "Notes to the Consolidated Financial Statements" for further information.

Business Developments and Results of Operations in 2012

European sovereign debt crisis and global economic downturn see order intake, revenue, and operating profit at the MAN Group decline

Economic environment

As a whole, fiscal 2012 was marked by a high level of uncertainty stemming from the financial markets and the European sovereign debt crisis. The global economy slowed noticeably over the course of 2012. After a rapid increase at the beginning of the year, economic growth weakened considerably over the course of the year. According to its winter report, the *Institut für Weltwirtschaft* (IfW – Institute for the World Economy) at the University of Kiel is anticipating global growth of only 3.2% for 2012, down on its forecast of 3.8% in the previous year.

The decline in global economic growth rates was once again attributable to the debt crisis in Europe, the necessary consolidation of government budgets, and the resulting uncertainty among consumers and investors. In the advanced economies, macroeconomic output increased only slightly and the already poor business climate deteriorated significantly over the course of the year. Growth in the emerging economies slowed considerably, with exports losing momentum on the back of weaker foreign demand from the advanced economies. Conditions in the financial markets also deteriorated, leading to significant capital outflows from the emerging economies.

Gross domestic product (GDP) in the euro zone contracted by 0.5% in 2012. Economic activity in the area was adversely affected by the high level of uncertainty about how the sovereign debt crisis would develop, as well as the ongoing implementation of consolidation measures and structural reforms. Private consumption was curbed by rising unemployment and higher taxes and levies, which depressed disposable income. The negative business environment and tougher lending conditions impacted investment in particular. However, there were considerable differences between the economies of individual countries. While the IfW is expecting Germany to increase its real gross domestic product by 0.7% in 2012 (as against 3.0% in the previous year), GDP in Southern Europe is expected to fall. In the euro zone excluding Germany, the IfW expects GDP to decline by 0.9% after growth of 0.9% in the previous year. Outside of the euro zone, Poland and Sweden continued to enjoy stable economic health, while in the United Kingdom, growth turned negative, at an expected –0.2%.

The United States saw only modest economic growth in the past fiscal year. Structural weaknesses such as high levels of household debt continued to dampen the positive effects of the expansionary monetary policy. The IfW anticipates a 2.2% increase in gross domestic product in 2011 as against 1.7% in the previous year.

Brazil, a key market for MAN, is still experiencing a period of economic weakness. After providing considerable support to investment and private consumption over the past few years, lending is now stalling. In the second half of the year, private consumption picked up and the export sector was boosted by the depreciation of the Brazilian real. In its 2012 winter report, the IfW nevertheless cut its forecast for GDP growth in Brazil to only 1.0%, down from 2.7% in the previous year. Most other Latin American countries saw robust economic growth over the course of the year, despite weak demand from the industrialized countries.

Asia was still the largest growth driver in the world in 2012, although the pace of expansion slowed here as well. At 7.8%, the Chinese economy grew at a significantly slower pace than in the prior-year period (9.2%). Investment in particular rose, while a sharp decline in exports to the European Union saw foreign trade contract. The Indian economy slowed as a result of virtually flat private consumption and a lower account surplus. Nevertheless, Indian GDP rose by 3.8% in 2012 as against 7.0% in the previous year. The IfW expects the remaining East Asian emerging economies to record growth of 5.8% in 2012.

Overall assessment by the Executive Board: MAN in a difficult market environment; profit down significantly

The MAN Group's market environment deteriorated throughout fiscal 2012. Weaker economic growth throughout the world and the ongoing sovereign debt crisis in Europe led to significant uncertainty. This influenced the investment behavior of MAN's customers. In this difficult market environment, MAN was unable to repeat its very successful prior-year performance and had to adjust its targets for fiscal 2012 over the course of the year. The MAN Group's order intake and revenue decreased by 7% and 4% respectively in the year under review. Increased competition and higher costs led to a disproportionately sharp drop in operating profit to €964 million (previous year: €1.5 billion). At 6.1%, the return on sales was well below the prior-year figure (9.0%) and hence outside the target bandwidth of 2 percentage points above/below the long-term target of 8.5%. Management is not content with these results and has taken appropriate measures.

Order situation

Both order intake and revenue fell short of the MAN Group's high prior-year level in the reporting period. The MAN Group's performance was negatively affected by both the ongoing European sovereign debt crisis and weaker global economic growth. The European commercial vehicles market contracted by 9% in 2012. In Brazil, the introduction of the Euro V emission standard, the deterioration in the economic situation, and tougher financing conditions for customers led to a significant decline in order intake and revenue. Muted economic growth and tougher financing conditions for customers also significantly affected order volumes in the Power Engineering business area.

Decrease in order intake

At €15.9 billion, the MAN Group's order intake in fiscal 2012 was down 7% on the prior-year level (€17.1 billion). The Commercial Vehicles business area recorded an order intake of €12.0 billion, 8% less than in the previous year (€13.0 billion). Order intake in the Power Engineering business area fell just short of the prior-year figure at €4.0 billion (previous year: €4.1 billion).

The MAN Group received major orders in the amount of €1.1 billion in fiscal 2012 (previous year: €0.7 billion).

The decline in order intake was much more pronounced in Germany than abroad. International orders decreased by 6% as against the high prior-year level to €12.6 billion. Domestic orders were much harder hit, declining 11% to €3.3 billion. At 80%, the proportion of international orders was on a level with the previous year (79%).

Orders in Europe were down 9% year-on-year, and were driven by Germany (€3.3 billion), Russia (€0.8 billion), the United Kingdom (€0.8 billion), and France (€0.6 billion). While orders in Germany and France declined by 11% and 21% respectively, they were roughly on a level with the previous year in Russia and the United Kingdom. Europe remains the MAN Group's most important region, accounting for 57% of its total order intake (previous year: 58%), followed by the Americas at 23%, and Asia at 14%.

At €3.7 billion, order intake in the Americas was down 9% on the previous year (€4.1 billion). Brazil accounted for 76% of this amount, or €2.8 billion (previous year: 81% or €3.3 billion). Orders in Asia grew by 3% to €2.2 billion. A third of this was attributable to MAN Truck & Bus, which lifted order intake in Asia by 57% year-on-year.

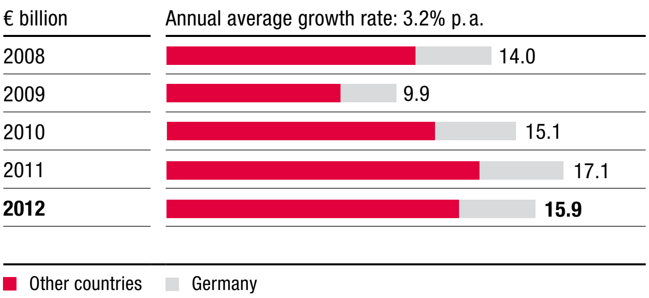
Order intake by business area

€ million	2012	%	2011	%
Commercial Vehicles	12,020	76	13,093	76
Power Engineering	4,035	25	4,148	24
Others/Consolidation	– 166	– 1	– 96	–
MAN Group	**15,889**	**100**	**17,145**	**100**

Order intake by region

€ million	2012	%	2011	%
Federal Republic of Germany	3,252	20	3,646	21
Other EU countries	3,987	25	4,374	26
Other European countries	1,846	12	1,920	11
Asia	2,218	14	2,164	13
Americas	3,734	24	4,119	24
Africa	698	4	754	4
Australia and Oceania	154	1	168	1
MAN Group	**15,889**	**100**	**17,145**	**100**

Five-year order intake trend

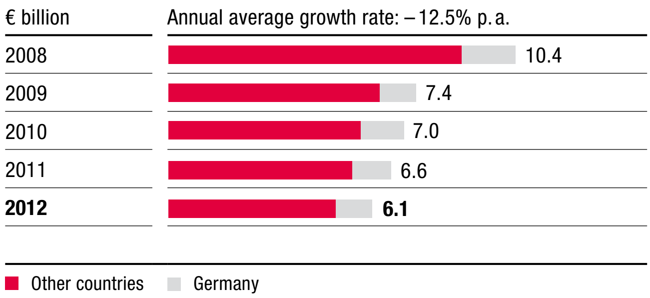


Like-for-like data for all years, excluding discontinued operations.

Decline in order backlog

The MAN Group's year-end order backlog in fiscal 2012 amounted to €6.0 billion, approximately €0.5 billion less than in the previous year. The order backlog in the Commercial Vehicles business area declined by 7% to €2.1 billion at the end of the year. At €4.0 billion, the Power Engineering business area recorded a 9% decrease in its order backlog as against the previous year. The business area's order backlog was lower than its annual revenue in fiscal 2012 and therefore spans just under one year.

Five-year order backlog trend



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

Revenue down significantly in the Commercial Vehicles business area, up slightly in Power Engineering

The MAN Group generated revenue of €15.8 billion in fiscal 2012, down on the record prior-year level (€16.5 billion).

Annual revenue in the Commercial Vehicles business area amounted to €11.7 billion, 7% less than in the previous year (€12.6 billion). The decrease is primarily attributable to MAN Latin America, as vehicle sales were significantly lower in Brazil. This was due in part to the introduction of the Euro V emission standard. The deterioration in the economic situation and what were at times more difficult financing conditions for customers also had a negative impact. MAN Truck & Bus's revenue was down 2% on the prior-year figure. Revenue growth in other regions, in particular the Middle East, partially offset the decline in the European commercial vehicles market.

The Power Engineering business area generated revenue of €4.3 billion in 2012, exceeding the prior-year level of €4.0 billion. MAN Diesel & Turbo saw revenue rise to €3.8 billion (previous year: €3.6 billion). The year-on-year increase is attributable to the Turbomachinery and Power Plants strategic business units. Renk lifted its revenue to €0.5 billion (previous year: €0.4 billion).

The MAN Group's domestic revenue declined by 10% year-on-year to €3.2 billion. Approximately 83% of domestic revenue was again accounted for by MAN Truck & Bus, which generated 30% of its revenue in Germany. The Power Engineering business area is much more internationally oriented and generated 87% of its revenue outside Germany.

Compared with the previous year, international revenue in the entire MAN Group decreased by 3% in 2012 to €12.6 billion. The proportion of total revenue generated outside Germany was therefore up slightly on the previous year, at 80% (79%).

Revenue in the European markets declined by 4% in 2012 to €9.1 billion, while the proportion of total revenue generated in Europe remained unchanged at 57%. The share attributable to the Americas amounted to 22% or €3.5 billion. €2.8 billion or 80% of this was attributable to MAN Latin America, which generated 87% of its revenue in the Brazilian market (previous year: 91%). In Asia, the MAN Group's revenue rose slightly to approximately €2.3 billion. Of this figure, China accounted for €0.6 billion and South Korea for €0.5 billion. The Power Engineering business area is very strongly represented in both markets. Asia generated 15% of the MAN Group's total revenue (previous year: 13%).

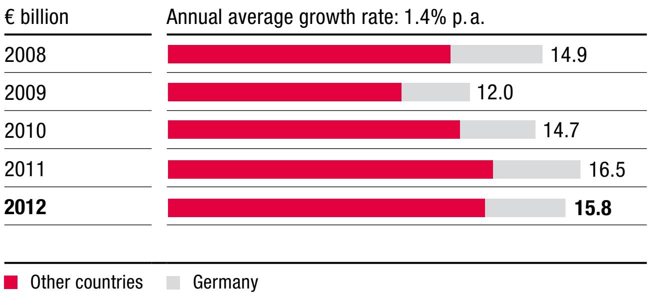
Revenue by business area

€ million	2012	%	2011	%
Commercial Vehicles	11,692	74	12,563	76
Power Engineering	4,256	27	3,999	24
Others/Consolidation	– 176	– 1	– 90	–
MAN Group	**15,772**	**100**	**16,472**	**100**

Revenue by region

€ million	2012	%	2011	%
Federal Republic of Germany	3,170	20	3,515	21
Other EU countries	4,153	27	4,164	25
Other European countries	1,744	11	1,744	11
Asia	2,335	15	2,166	13
Americas	3,510	22	4,115	25
Africa	696	4	625	4
Australia and Oceania	164	1	143	1
MAN Group	**15,772**	**100**	**16,472**	**100**

Five-year revenue trend



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

Operating profit

The MAN Group recorded an operating profit of €964 million in fiscal 2012, down 35% on the high prior-year figure (€1,483 million). This decrease is primarily attributable to the Commercial Vehicles business area, which saw operating profit decline to €454 million (previous year: €965 million).

MAN Truck & Bus recorded an operating profit of €225 million (previous year: €565 million) and a return on sales of 2.6% (previous year: 6.3%). This significant decline year-on-year is largely due to the weak European commercial vehicles market and the resulting pressure on margins, as well as higher costs. Operating profit was also weighed down by a lower average margin caused by changes to the product and country mix. Financial Services generated an operating profit of €4 million (previous year: €1 million). MAN Latin America's operating profit declined to €229 million in the year under review, compared with €400 million in the prior-year period. This is mainly due to the drop in revenue and increased competition amidst difficult market conditions.

At €503 million, the Power Engineering business area made a stabilizing contribution to operating profit, almost matching the prior-year figure of €513 million. MAN Diesel & Turbo posted a slight decline in operating profit, down by €23 million to €437 million. In contrast, Renk's contribution to earnings improved by 25% to €66 million.

In addition to MAN SE and its Shared Services companies, the figure for Others/Consolidation includes the net income/losses of equity investments held directly by MAN SE, as well as the consolidation adjustments between the MAN Group's divisions. The operating profit attributable to Others/Consolidation was €7 million in fiscal 2012, on a level with the previous year (€5 million).

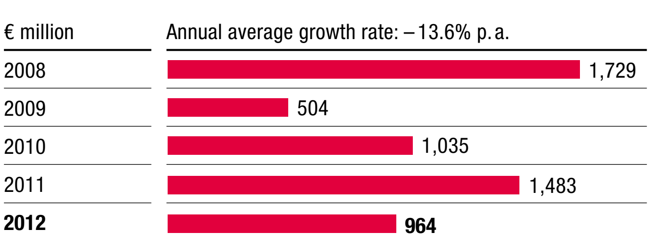
The MAN Group generated a return on sales of 6.1% in fiscal 2012, following 9.0% in the previous year. The MAN Group's profitability in the year under review was therefore outside the target range of the long-term target of 8.5% +/– two percentage points.

Operating profit by business area

€ million	2012	2011
Commercial Vehicles	454	965
Power Engineering	503	513
Others/Consolidation	7	5
MAN Group	**964**	**1,483**

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."

Five-year operating profit trend



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

Income statement

€ million	2012	%	2011	%
Revenue	15,772	100.0	16,472	100.0
Cost of goods sold and services rendered	– 12,499	– 79.2	– 12,791	– 77.7
Gross margin	3,273	20.8	3,681	22.3
Other operating income [3]	540	3.4	511	3.1
Selling expenses [1]	– 1,091	– 6.9	– 1,075	– 6.5
General and administrative expenses [1]	– 949	– 6.0	– 853	– 5.2
Other operating expenses [3]	– 877	– 5.6	– 907	– 5.5
Income from investments [1,2]	68	0.4	126	0.8
Operating profit	964	6.1	1,483	9.0

[1] Amount after reclassification of € – 110 million of selling expenses/general and administrative expenses and income/loss from investments (previous year: € – 109 million of selling expenses/general and administrative expenses and income/loss from investments) to earnings effects from purchase price allocations.
[2] Amount after reclassification of €231 million of loss from investments (previous year: €157 million of loss from investments) to gains/losses from nonrecurring items.
[3] 2011: Amount after reclassification of €39 million to gains/losses from nonrecurring items.

Revenue declined by 4% year-on-year in 2012, but the cost of goods sold and services rendered did not decrease to the same extent. As a result, the gross margin was down €408 million on the prior-year figure; profitability declined from 22.3% in the previous year to 20.8%. The decrease reflects the pressure on the MAN Group's margins in fiscal 2012. Higher personnel expenses in particular saw general and administrative expenses rise by 11% to €949 million. Selling expenses were roughly on a level with the previous year.

At €540 million, other operating income was up slightly on the prior-year figure (€511 million). Other operating expenses were slightly below the prior-year level at €877 million (€907 million).

Income from investments declined significantly, mainly due to lower income from the equity-method investment in Sinotruk.

Reconciliation to net income

€ million	2012	2011
Operating profit	**964**	**1,483**
Earnings effects from purchase price allocations	–110	–109
Gains/losses from nonrecurring items	–231	–118
Net interest expense	–312	–134
Earnings before tax (EBT)	**311**	**1,122**
Income taxes	–122	–434
Loss from discontinued operations, net of tax	–	–441
Net income	**189**	**247**
Earnings per share from continuing operations in €	1.20	4.62
Dividend per share in €*	1.00	2.30

* 2012: proposed dividend.

The MAN Group's earnings before tax amounted to €311 million in 2012, well below the prior-year figure (€1,122 million).

Effects from purchase price allocations totaled €–110 million in the year under review. Of this figure, €–91 million relates to MAN Latin America, €–12 million to the joint venture with Rheinmetall MAN Military Vehicles GmbH, Munich (RMMV), and €–7 million to the investment in Sinotruk. To enhance long-term comparability, the effects from purchase price allocations are not included in operating profit.

Losses from nonrecurring items, which are also not included in operating profit, totaled €231 million in fiscal 2012 (previous year: €118 million). They were due to impairment losses on the investment in Sinotruk (€190 million) and on RMMV (€41 million).

In addition to interest on bank balances and bank liabilities, net interest expense of €312 million includes net interest on pensions and interest payable on tax liabilities. The €178 million deterioration in net interest expense was mainly due to interest expenses relating to additional tax payments arising from the tax audit for the years 2002 to 2005, as well as other existing provisions.

The MAN Group's tax expense decreased by €312 million to €122 million. The tax rate rose to 39.2% (previous year: 38.6%), primarily as a result of the non-tax-deductible impairment losses on investments.

At €189 million, the MAN Group's net income was €58 million below the prior-year figure of €247 million. Earnings per share from continuing operations declined from €4.62 to €1.20. Adjusted for losses from nonrecurring items and excluding purchase price allocations, earnings per share amounted to €3.31 (previous year: €5.78).

Against this background, the Executive Board and Supervisory Board of MAN SE will propose a dividend of €1.00 per share carrying dividend rights to the Annual General Meeting (previous year: €2.30).

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 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.

In addition to ROS, the delta to the cost of capital (ROCE – WACC) is used in the MAN Group as a component of performance-related remuneration for managers. It corresponds to the difference between ROCE and the weighted average cost of capital (WACC).

The members of MAN SE's Executive Board receive a performance-related annual bonus. Target achievement is benchmarked by reference to ROE and the delta to the cost of capital. For Executive Board members, an average figure over two (variable remuneration) and three years (long-term remuneration component) is used to determine whether the targets based on the delta to the cost of capital factor have been reached. In future, the bonus calculated using the ROE factor will be paid in cash, rather than as a stock bonus. For further information, see the "Remuneration report for fiscal year 2012."

Target returns

The MAN Group aims for an ROS of 8.5% over an operating cycle and an ROCE that exceeds the weighted cost of capital of 10%. The target return on sales is 8.5% in the Commercial Vehicles business area and 9.0% in the Power Engineering business area. A range of +/–2 percentage points has been 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, adjustments are made for earnings effects from purchase price allocations and, in individual cases, nonrecurring items. Nonrecurring items represent income and expenses that are significant in terms of their origin and amount and that do not relate to operating business. In 2012, MAN recorded losses from nonrecurring items totaling €231 million, which are reflected in EBIT, but not in operating profit. In the previous year, the Group reported losses from nonrecurring items amounting to €118 million.

ROS

%	2012	2011
Commercial Vehicles	3.9	7.7
Power Engineering	11.8	12.8
MAN Group	**6.1**	**9.0**

The MAN Group's return on sales declined to 6.1% in 2012 (previous year: 9.0%). The difficult market environment led to a decline in revenue and impacted profitability. MAN Truck & Bus recorded an ROS of 2.6% (previous year: 6.3%), while the figure for MAN Latin America was 8.0% (previous year: 11.2%). MAN Diesel & Turbo generated a return on sales of 11.6% (previous year: 12.7%). Renk lifted its ROS to 13.8% (previous year: 13.6%).

ROCE

€ million	2012	2011
Equity	**5,619**	**5,590**
Pensions and other post-employment benefits	591	378
Financial liabilities	5,299	3,170
	11,509	**9,138**
Business volume not funded by equity of MAN Finance	– 3,243	– 2,539
Marketable securities and cash and cash equivalents	– 1,367	– 958
Capital employed by the MAN Group at December 31	**6,899**	**5,641**
Annual average capital employed by the MAN Group	**6,937**	**6,071**
Operating profit	**964**	**1,483**
ROCE (%)	**13.9**	**24.4**

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, pensions and other post-employment benefits, and financial liabilities, less marketable securities, cash and cash equivalents, and the financing business (leasing) not covered by the equity of MAN Finance. MAN Finance comprises MAN Finance International GmbH, Munich, and the national companies assigned to it.

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, pensions provisions and other post-employment benefits, 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 declined from 24.4% in the previous year to 13.9%.

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 2012 remained unchanged at 10.0%. The "delta to the cost of capital" measure is calculated as the difference between ROCE and WACC and was 3.9% in 2012 (previous year: 14.4%).

ROE

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

€ million	2012	2011
MAN Group equity on December 31	5,619	5,590
Annual average MAN Group equity	5,635	6,037
Earnings before tax (EBT)*	311	681
ROE (%)	**5.5**	**11.3**

* Earnings before tax additionally including earnings effects of discontinued operations.

The MAN Group's ROE declined from 11.3% to 5.5% in fiscal 2012.

Financial Position

Free cash flow impacted by high nonrecurring charges

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, as well as financial institutions are used to safeguard liquidity at all times. The prime objective in this context is to ensure that the MAN Group has 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 – and especially those risks relating to exchange rate and commodity price movements, and interest rate changes. Additionally, counterparty and country risks, as well as collateral received, 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 and ensuring the optimum, cost-effective transfer of financial risk.

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, short-term loans to unconsolidated investments, and marketable securities, less financial liabilities.

Cash earnings in the MAN Group declined to €980 million (previous year: €1,094 million). The significant decrease in earnings before tax was partially offset by lower current income taxes of €–124 million (previous year: €–439 million) in particular, as well as higher noncash losses from nonrecurring items in the year under review (see "Reconciliation to net income").

The MAN Group's net capital employed increased by €1,064 million (previous year: €576 million). The single greatest impact on this figure was the additional tax payment of €472 million arising from the tax audit for the years 2002 to 2005. Other influencing factors were the €365 million decline in trade payables due to lower production levels (previous year: increase of €374 million) and the €202 million decrease in provisions (previous year: increase of €253 million). This was partially offset by the decrease in inventories and receivables by a total of €173 million (previous year: increase of €1,234 million).

The net cash generated by operating activities of the Industrial Business amounted to €200 million (previous year: €964 million), and the MAN Group as a whole recorded net cash used in operating activities of €84 million (previous year: net cash provided of €518 million).

Net cash used in investing activities reflects the divestment of Ferrostaal (€345 million) and payments in the amount of €164 million to acquire subsidiaries (previous year: €52 million). In particular, the latter includes the acquisition of the remaining shares of the former joint venture MAN FORCE TRUCKS for a net amount of €148 million. In addition, the MAN Group invested €754 million (previous year: €601 million) in property, plant, and equipment, and intangible assets for the two business areas – significantly more than in the previous year. Overall, net cash used in investing activities led to a cash outflow of €1,233 million, €596 million higher than in the previous year.

		MAN Group	Industrial Business		Financial Services	
€ million	2012	2011	2012	2011	2012	2011
Net liquidity/net financial debt at beginning of period	**–2,212**	**–1,778**	**42**	**80**	**–2,254**	**–1,858**
Cash earnings	980	1,094	978	1,090	2	4
Change in net capital employed in continuing operations	–1,064	–576	–778	–126	–286	–450
Net cash provided by/used in operating activities	**–84**	**518**	**200**	**964**	**–284**	**–446**
Net cash flows from investing activities of continuing operations	–888	–637	–845	–631	–43	–6
Net cash flows from investing activities of discontinued operations	–345	–	–345	–	–	–
Net cash used in investing activities	**–1,233**	**–637**	**–1,190**	**–631**	**–43**	**–6**
Free cash flow	**–1,317**	**–119**	**–990**	**333**	**–327**	**–452**
Cash flow from net liquidity/net financial debt financing activities	**–348**	**–297**	**–362**	**–347**	**14**	**50**
Net change in net liquidity/net financial debt	**–1,665**	**–416**	**–1,352**	**–14**	**–313**	**–402**
Other changes in net liquidity/net financial debt	–51	–18	312	–24	–363	6
Net liquidity/net financial debt at end of period	**–3,928**	**–2,212**	**–998**	**42**	**–2,930**	**–2,254**

The free cash flow from the MAN Group's operating and investing activities amounted to €–1,317 million (previous year: €–119 million). Of this amount, €–990 million (previous year: €333 million) was attributable to the Industrial Business. Free cash flow in the Financial Services business amounted to €–327 million (previous year: €–452 million).

Cash flow from net liquidity/net financial debt financing activities mainly includes the dividend payment of €342 million (previous year: €297 million).

Free cash flow by business area

€ million	2012	2011
Commercial Vehicles	–512	–339
Power Engineering	168	270
Others/Consolidation	–973	–50
MAN Group	**–1,317**	**–119**

Free cash flow in the Commercial Vehicles business area totaled €–512 million. €205 million of this was attributable to the operating commercial vehicles business at MAN Truck & Bus, while the expansion in financing negatively impacted cash flow by €327 million. MAN Latin America generated free cash flow of €21 million (previous year: €–46 million). Free cash flow in the Power Engineering business area amounted to €168 million (€270 million). The decrease compared with the prior year is mainly attributable to increased capital expenditure. The additional tax payment and the divestment of Ferrostaal are reported in free cash flow for Others/Consolidation.

The MAN Group's net financial debt increased by €1,716 million to €3,928 million (€2,212 million). The Industrial Business recorded net financial debt of €998 million (previous year: net liquidity of €42 million). For Financial Services, net debt rose to €2,930 million (€2,254 million). The increase is attributable to growth in financing volumes, as well as the reclassification of EURO-Leasing GmbH, Sittensen (EURO-Leasing), from MAN Truck & Bus to Financial Services.

The MAN Group's net financial debt was composed of cash and cash equivalents of €1,366 million (previous year: €957 million), marketable securities of €1 million (€1 million), and short-term loans to unconsolidated investments of €4 million, less financial liabilities of €5,299 million (€3,170 million). Please refer to "MAN Group funding" and the "Notes to the Consolidated Financial Statements" for further information on financial liabilities.

MAN Group funding

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. As was the case with the preceding facility, the syndicated credit line has never been drawn down and is thus available as a liquidity reserve.

The EMTN program launched by MAN SE in 2009 has a volume of up to €5 billion, of which €3,320 million has currently been utilized through bond issues. MAN SE has issued both publicly offered bonds with a fixed interest rate and, for the first time in 2012, privately placed notes with a variable interest rate, all of which are denominated in euros. The privately placed notes have a total volume of €570 million and mature between September 2013 and November 2014. Details of the MAN Group's main outstanding publicly offered bonds are provided below.

The MAN Group's publicly offered bonds:

Principal amount (€ million)	Term from	To	Interest rate p.a.
500	May 20, 2009	May 20, 2016	7.250%
1,000	May 20, 2009	May 20, 2013	5.375%
750	March 13, 2012	March 13, 2017	2.125%
500	September 21, 2012	September 21, 2015	1.000%

In addition, the Group has issued two promissory note loans totaling €26.25 million that expire in 2019 (amortizing) and bear a fixed interest rate of 6.76%. The fixed-interest component of a promissory note loan (€49 million) was repaid in 2012 according to schedule.

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

After Standard & Poor's (S&P) linked the MAN Group's rating to that of Volkswagen AG in December 2011, MAN decided to end its cooperation with the rating agency in December 2012, primarily for commercial reasons. Standard & Poor's most recently confirmed MAN's A– long-term rating in September 2012, but lifted its outlook from "stable" to "positive" in line with Volkswagen AG's rating. The rating relationship with Moody's will continue unchanged. The A3 long-term rating with a stable outlook awarded by Moody's was confirmed in September 2012.

With respect to 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 following 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 either individually or collectively obtain control of MAN SE or acquire the majority of voting rights in MAN SE. The acquisition by Volkswagen AG of a majority stake in MAN SE on November 9, 2011, was excluded from this condition.

The promissory note loans issued in the amount of €26.25 million can be terminated with immediate effect if one or more persons acting in concert acquire the majority of voting rights in MAN SE. The arranging banks notified the creditors about Volkswagen AG's acquisition of a majority stake in MAN SE. None of the creditors exercised their call rights.

Repayment of the publicly offered bonds (€2.75 billion) and the privately placed notes (€570 million) 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 2012	MAN Group 2011	Industrial Business 2012	Industrial Business 2011	Financial Services 2012	Financial Services 2011
Property, plant, and equipment, and intangible assets	4,385	3,974	4,347	3,966	38	8
Investments	2,223	2,089	2,221	2,087	2	2
Assets leased out	2,501	2,303	1,183	1,366	1,318	937
Income taxes	1,393	1,195	1,226	1,161	167	34
Inventories	3,373	3,513	3,311	3,443	62	70
Trade receivables	2,141	2,331	2,011	2,258	130	73
Financial services receivables	1,646	1,485	–	–	1,646	1,485
Other noncurrent and current assets	889	822	791	768	98	54
Cash and cash equivalents	1,367	958	1,331	938	36	20
Total assets	**19,918**	**18,670**	**16,421**	**15,987**	**3,497**	**2,683**
Total equity	5,619	5,590	5,366	5,446	253	144
Pensions and other post-employment benefits	591	378	588	377	3	1
Financial liabilities	5,299	3,170	4,148	2,059	1,151	1,111
Intragroup financing	–	–	–1,815	–1,163	1,815	1,163
Provisions	1,850	2,194	1,846	2,190	4	4
Prepayments received	908	823	907	820	1	3
Income taxes	1,105	1,347	1,012	1,294	93	53
Trade payables	2,006	2,324	1,905	2,186	101	138
Other noncurrent and current liabilities	2,540	2,844	2,464	2,778	76	66
Total equity and liabilities	**19,918**	**18,670**	**16,421**	**15,987**	**3,497**	**2,683**

Industrial Business

Property, plant, and equipment, and intangible assets rose to €4,347 million as of December 31, 2012 (previous year: €3,966 million). The increase is primarily due to higher capital expenditures. In addition to making necessary replacement and maintenance investments, the measures taken focused on improving productivity and quality, as well as increasing efficiency in production. MAN also invested in the development of new products, as well as in expanding its presence around the world. €208 million is attributable to goodwill from the increase in the interest in the former joint venture MAN FORCE TRUCKS.

The net increase in investments over the course of the year (€134 million) also reflects the higher fair value of the investment in Scania AB, Södertälje, Sweden (Scania), and the lower carrying amount of equity-method investments. The decrease in carrying amounts was due to the impairment losses recognized on the investments in Sinotruk and RMMV, as well as the change in the presentation of the shares of the former joint venture MAN FORCE TRUCKS in India following its step acquisition.

Assets leased out amounted to €1,183 million as of December 31, 2012 (previous year: €1,366 million). The higher volume of sales with buyback obligations at MAN Truck & Bus was unable to offset the effects of reclassifying EURO-Leasing from MAN Truck & Bus to Financial Services.

Inventories amounted to €3,311 million as of December 31, 2012 (previous year: €3,443 million). The year-on-year change, in particular at MAN Latin America, is attributable to the reduction in remaining Euro III inventories. Trade receivables also declined by €247 million over the course of the year. This was mainly due to the reduction in business volumes in the Commercial Vehicles business area.

Trade payables declined by €281 million due to lower production levels (previous year: increase of €304 million) and amounted to €1,905 million as of December 31, 2012. By contrast, prepayments received rose by €87 million (previous year: €61 million) despite the lower order intake at MAN Diesel & Turbo.

Pension obligations rose in particular due to actuarial losses of €588 million (previous year: €377 million) as of December 31, 2012. The actuarial losses primarily resulted from the use of a lower discount rate. The €2,089 million increase in financial liabilities over the course of the year was due to the issuance of new bonds.

Tax liabilities amounted to €1,012 million as of December 31, 2012 (previous year: €1,294 million). The change as against the previous year reflects the additional tax payment arising from the tax audit for the years 2002 to 2005. Other noncurrent and current liabilities decreased to €2,464 million as of December 31, 2012, compared with €2,778 million in the previous year. The decline was significantly influenced by the settlement of obligations entered into at the end of November 2011 in connection with the sale of Ferrostaal, as well as the concurrent settlement of the litigation with IPIC.

Equity in the Industrial Business amounted to €5,366 million as of December 31, 2012 (previous year: €5,446 million). The market performance of the investment in Scania, which had an extremely positive effect, was offset by the dividend payment for fiscal 2011 and the rise in actuarial losses attributable to pensions. Almost unchanged equity and higher intangible assets, property, plant, and equipment, and investments led to a drop in the ratio of equity to noncurrent assets by eight percentage points (from 90% to 82%). The equity ratio of the Industrial Business decreased slightly to 32.7% (previous year: 34.1%). The MAN Group's overall equity-to-assets ratio was 85% (92%) and its equity ratio was 28.2% (29.9%).

Financial Services

Total assets for the Financial Services business increased by a total of €814 million due to higher financing volumes and the reclassification of EURO-Leasing from MAN Truck & Bus to Financial Services. €1,151 million (previous year: €1,111 million) was refinanced externally, and €1,815 million (previous year: €1,163 million) was financed internally within the Group.

Unrecognized assets

As part of the Group's off-balance sheet financing instruments, MAN uses 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 authorization to purchase own shares granted on April 1, 2010, is contained in the following section.

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 non-voting 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 profit 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 is insufficient net retained profit to pay the preferred dividend, the shortfall is payable in arrears, without interest, from the net retained profit of the subsequent fiscal years before the distribution of a dividend to the holders of common shares.

The common shares are voting shares, while preferred shares do not generally carry voting rights. Under section 140 (2) of the *Aktiengesetz* (AktG – German Stock Corporation Act), this does not apply if the preferred dividend is not paid in a given 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, holders of preferred shares 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 60 of the *SE-Verordnung* (SE-VO – German SE Regulation) under which a consenting resolution by the preferred shareholders is required if the Annual General Meeting adopts a resolution that affects the specific rights of preferred shareholders, i.e. 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.

Significant shareholdings in MAN SE

Volkswagen Aktiengesellschaft notified us on June 6, 2012, in accordance with section 21 (1) sentence 1 of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) that the share of voting rights held by Volkswagen Aktiengesellschaft had exceeded the limit of 75% on June 6, 2012, and amounted to 75.03% at that time. In addition, Porsche Automobil Holding SE and its controlling shareholders notified us on June 6, 11, and 12, 2012, in accordance with section 21 (1) of the WpHG, that Volkswagen Aktiengesellschaft's 75.03% interest is also attributable to Porsche Automobil Holding SE and its controlling shareholders. Furthermore, on October 26, 2012, we 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) fell below the threshold of 3% on July 8, 2011. We have not been notified of, nor are we aware of, further existing direct or indirect interests in the capital of MAN SE that 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 sections 39 (2) and 46 of the SE-VO 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 and the authority of the Supervisory Board 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.

Section 59 (1) of the SE-VO in conjunction with sections 179 ff. of the AktG applies 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 section 39 of the SE-VO in conjunction with sections 77 ff. 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 the reporting period.

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 this authorization 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 in issue 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 must be 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 86 (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 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 before 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 or 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.

Research and Development

Continuous research and development activities are a key factor in long-term competitiveness – this is why MAN invests over 5% of its annual revenue in R&D

The global megatrends of globalization, the associated increase in global trade, population growth, urbanization, and climate change, and the resulting stricter regulatory requirements are driving the changing market conditions and economic environment. MAN's goals of efficiency and technology leadership are designed to secure its position as a leading international manufacturer of commercial vehicles, diesel engines, turbo-machinery, and special gear units in the future as well. Continuous research and development work is one of the Company's core tasks to meet customers' increasing need for sustainable and efficient mobility and energy supply solutions today and tomorrow.

Commercial Vehicles

The global megatrends are having a direct influence on future developments in the freight transportation and commercial vehicle industries – and hence on the Commercial Vehicles business area as well. The consequences include rising energy prices and the related need to reduce fuel consumption, stricter emission laws such as Euro VI, growth in road transportation, targeted relief for traffic-sensitive areas such as city centers, as well as increasing safety requirements for road users.

Reducing consumption

As one of the world's leading manufacturers of trucks and buses, MAN is making a significant contribution to reducing fuel consumption and thus continuously improving transportation efficiency. MAN offers customers an extensive program for reducing the total cost of ownership (TCO). At over 25%, fuel costs account for the largest TCO item.

Alongside measures to optimize drivetrains and aerodynamics, driver assistance systems make commercial vehicles more efficient and safer. This was confirmed by a four-year research project, euroFOT (European Field Operational Test), the first large-scale field operational test on driver assistance systems. For example, MAN trucks consumed nearly 2% less diesel on average during the test period using adaptive cruise control (ACC). MAN has won a number of prizes in its main research areas of driving dynamics, simulation, driver assistance, and active accident prevention measures for trucks and buses.

One particular innovation is MAN's Concept S, a truck study that enables fuel consumption and CO_2 emissions by diesel trucks to be cut drastically by up to 25% while maintaining loading capacity. The key to the concept is improving the aerodynamics of the entire truck by coordinating the design of the tractor and trailer, as well as implementing high-tech measures that lower fuel consumption further, such as using electrical propulsion for auxiliary units. A Concept S model combining a tractor and a trailer was presented at the 2012 IAA Commercial Vehicles Show for the first time. However, implementation would require amending the EU's registration rules for total truck lengths.

Since the beginning of October 2012, MAN has been participating in a Germany-wide field study of long trucks designed to investigate the traffic-related, economic and ecological effects of longer vehicle combinations in road freight transportation.

Reducing emissions

The introduction of the Euro VI emission standard as from the beginning of 2014 will significantly tighten the standards to be met by all newly registered trucks and buses in Europe. Compared to the Euro V rules that are currently in force, this requires an 80% reduction in nitrogen oxides to 0.4 g/kWh and a decrease of more than 90% in particulate matter to 0.01 g/kWh. This means that virtually pollutant-free commercial vehicles will become a reality in European road transportation.

MAN presented its Euro VI technology for trucks and coaches at the 2012 IAA Commercial Vehicles Show under the motto "Here comes Euro VI – but not at the price of efficiency." Proven technologies were combined in an intelligent manner and optimally integrated to meet the new emission standard. All Euro VI diesel vehicles use an efficient concept comprising needs-driven exhaust gas recirculation, diesel particulate filters, and exhaust gas aftertreatment using the SCRT (selective catalytic reduction technology) system. MAN celebrated the world premiere of the new TG truck family with Euro VI technology – virtually pollutant-free vehicles that are just as fuel-efficient as their particularly economical Euro V-compliant predecessors. In the case of city buses, MAN was in fact able to reduce fuel consumption even further, presenting Euro VI-compliant technology for buses running on natural gas and biogas as well for the first time.

Alternative drives: hybridization and e-mobility

Alternative drives are also becoming increasingly important in the commercial vehicles sector. MAN is convinced that hybrid technology will be a mainstay in the future. In view of the usage conditions – annual mileage, typical route profiles, and opportunities for fuel savings – it is apparent that the hybridization of city buses in particular, and of long-haul and urban truck transportation offers considerable potential for efficiency. The Center of Competence for Hybrid Technology created in mid-2011 at MAN Truck & Bus bundles expertise in the different product segments from research through to series development. MAN's e-mobility strategy is being developed in close cooperation with its product strategy. The Center of Competence for Hybrid Technology takes part in research projects and grant-assisted projects, drives forward cooperation with universities, and is responsible for the predevelopment of future hybrid and e-mobility drivetrain structures.

The MAN Lion's City Hybrid city bus, which has been in series production since 2010, reduces fuel consumption and CO_2 emissions by up to 30% during daily bus service operations, while customer tests of TGL hybrid vehicles have confirmed forecast consumption levels of up to 15% less diesel in the urban delivery sector. At the end of 2012, the Metropolis hybrid research vehicle became the first garbage collection truck to be deployed in a two-year practical trial in the Antwerp-Brussels region. In addition to significant fuel savings, the issue of noise is playing an increasingly important role in public transportation and in city traffic – and hybrid vehicles can help here. For example, the MAN Lion's City Hybrid departs from bus stops nearly soundlessly, starting in purely electric mode. Although the use of hybrid vehicles is normally considered to be particularly appropriate in stop-and-go city traffic, hybrid vehicles can also offer substantial added value outside of urban traffic. In the long-haul segment, fuel savings may "only" be 5% to 8%, but the high annual driving distances of up to 150,000 km mean that these potential reductions in fuel consumption and CO_2 emissions have a significant impact on the overall carbon footprint. In order to leverage this potential, MAN is continuing to develop these vehicles.

The Association of Brazilian Automotive Engineers presented their AEA Environment Award to MAN Latin America for its pioneering work in developing the first Brazilian hybrid truck – the VW Constellation 17.280 6x2 Híbrido. The hybrid truck also won two Renewable Energy Infrastructure Awards. Developed in Brazil, the vehicle uses hydraulic diesel-hybrid drive technology. It offers increased energy efficiency, is more affordable than comparable hybrid offerings on the Brazilian market, and is optimally designed for conditions in emerging economies.

Alternative fuels

The growing scarcity of resources and resulting price increases will accelerate the use of alternative fuels. Natural gas is already an established alternative to diesel fuel – and costs considerably less in many countries of the world. Natural gas-powered city buses are a reliable and cost-effective example of state-of-the-art public transportation, offering a more effective response to inner-city air pollution and reducing dependence on oil.

MAN is the leader in natural gas buses. To date, it has delivered more than 5,000 natural gas buses and bus chassis with CNG (compressed natural gas) engines, which are available in five levels ranging from 220 horsepower to 310 horsepower. In Europe, MAN's natural gas buses have had an average market share of over 44% during the past eight years. For example, the Company will deliver 250 MAN Lion's City G buses with CNG drives to EGO Ankara, a Turkish transportation company, in the period up to 2013. The MAN vehicles will be the first articulated natural gas-powered buses to be deployed in Turkey. At present, EGO Ankara already has 1,090 MAN Lion's Classic CNG buses – the largest gas-powered fleet in the world – which it uses to help to control air pollution in the city.

MAN received the Top Ethanol Award for a vehicle from the TGS series that can be powered flexibly by both diesel and ethanol.

Power Engineering

The future of the Power Engineering business area is also dominated by the megatrends. This can be seen in the stronger demand for efficient products, the greater use of gas and other low-sulfur fuels, increasing energy requirements and, at the same time, rising demand for renewable energies and decentralized energy generation, as well as the continued growth in the freight transportation industry, for example.

Greater efficiency and lower emissions are also key technological drivers for the products manufactured by the Power Engineering business area. MAN Diesel & Turbo presented innovative solutions for marine propulsion units at the SMM (Shipbuilding, Machinery, and Marine Technology) in Hamburg, the world's most important shipbuilding fair, in September 2012. The dual-fuel large-bore 35/44DF model diesel engine was the highlight. This is a dual-fuel engine that can run on both liquid and gas fuels. In its gas mode, the 35/44DF four-stroke engine already meets the International Maritime Organization's Tier III emission standard, which will come into force in 2016 for international maritime traffic. When it does, nitrogen oxide emissions in certain coastal areas will have to be cut by around 80% as against the base year, 2000. MAN Diesel & Turbo is also offering dual-fuel technology for two-stroke engines under the name of ME-GI. The agreement for the first two liquid gas-powered container ships in the world was signed at the end of 2012.

The International Maritime Organization's Energy Efficiency Design Index stipulates how many grams of CO_2 a ship is permitted to emit per ton transported and nautical mile traveled. The goal is to reduce fuel consumption and the associated CO_2 emissions. Starting in 2013, all new ships must comply with this standard. In terms of engine technology, this is already possible at MAN Diesel & Turbo under its G-type two-stroke engine program, which provides optimal support for slow steaming, saving fuel by reducing the ship's speed through the use of ultra-long strokes.

A further focus is on using natural gas as a low-emission alternative. MAN Diesel & Turbo's engine and turbine program has been aligned with future trends, among other things by introducing new products such as a new gas engine for power plant applications (35/44G) and a new gas turbine in the 6 MW class.

The new generation of MAX1 axial compressors, which are primarily used to extract high-purity fuels and other hydrocarbons from natural gas and coal, feature improved efficiency, as well as a high level of robustness and cost-effectiveness. MAN Diesel & Turbo secured its first order for four machines in 2012. Other areas of focus included CO_2 storage and transport, as well as magnetic bearings.

Research and development activities in the power plants business focus on increasing efficiency and reducing emissions. By combining MAN Diesel & Turbo products, it can achieve a level of plant efficiency that is well above current values. Engines for combined heat and power applications are optimized so that waste heat flows can be used in industrial processes or for district heating, for example.

In view of the stricter requirements with respect to emissions and environmental compatibility, MAN PrimeServ, MAN Diesel & Turbo's service brand, has continuously updated its retrofit and upgrade offerings. Such enhancements increase the efficiency of diesel engines, compressors, and turbines, and reduce resource consumption.

Renk has successfully defended its global technology leadership in tracked vehicle transmissions, marine applications, and standard slide bearings and hence its excellent market position against the global competition for many years. Its highly specialized engineers and its customer-centric philosophy that focuses on developing sustainable solutions in partnership are the backbone of its success.

5,153 people were employed in research and development in 2012 compared with 4,443 in the previous year.

MAN invests a significant proportion of its revenue each year in R&D to secure its competitive advantage over the long term. In 2012, capital expenditure in this area was €830 million, or 5.3% of revenue. €634 million, or 76% of Group-wide R&D expenditures, was internally funded. Over the past five years, the MAN Group's R&D expenditures have risen by an average of 13.9% per year.

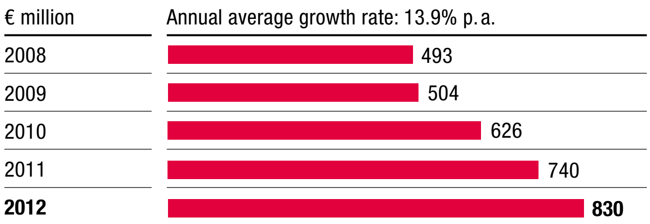
Funds for order-specific R&D activities and for publicly subsidized projects amounted to €196 million. Around 51% of internal funds were invested in basic research and the development of new products.

€ million	2012	2011
R&D expenditures	**830**	**740**
R&D expenditures by the manufacturing areas (% of revenue)	5.3	4.5
Internally funded R&D	634	565
R&D employees (annual average)	5,153	4,443

R&D expenditures by business area

€ million	2012	2011
Commercial Vehicles	437	403
Power Engineering	399	345
Consolidation	–6	–8
MAN Group	**830**	**740**

Five-year R&D expenditures trend



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

Capital Expenditures

Capital expenditures increased again to safeguard the future and long-term growth

Capital expenditures by the MAN Group increased to €929 million in fiscal 2012, compared with €671 million in the previous year. Capital expenditures in both property, plant, and equipment and investees rose sharply.

The MAN Group's capital expenditures in the Commercial Vehicles business area totaled €740 million in fiscal 2012, compared with €567 million in the previous year. In addition to making necessary replacement and maintenance investments, MAN Truck & Bus mainly invested in developing new products such as engines that comply with the Euro VI emission standard. It also invested in enhancing productivity and quality. The largest electrophoretic deposition (EPD) plant in Europe was opened in Ankara, the sequencing center at the Nuremberg engine plant was expanded, and the modernization of the NEOPLAN plant in Plauen was driven forward. In addition, development capabilities were strengthened by extending the buildings at the Munich location, allowing previously decentralized business areas to work together more closely on new test beds and in the design center. MAN Truck & Bus strengthened its global presence by expanding and renewing its sales and service network. The expansion of the logistics center in Salzgitter continued to improve global spare parts logistics. This opens the way for growth potential in after sales. Construction of the new production facility in St. Petersburg continued. MAN Truck & Bus also acquired the remaining shares of the MAN FORCE TRUCKS joint venture in the first quarter of 2012 and is now managing the company by itself. These activities underline the importance of the BRIC markets for MAN's growth in the future. Capital expenditures by MAN Latin America mainly related to the changeover to the Euro V emission standard, as well as the technical integration of products and components with MAN Truck & Bus.

Investments in the Power Engineering business area rose sharply to €195 million in 2012 (previous year: €117 million). This corresponds to an increase of 67%. MAN Diesel & Turbo made necessary replacement and maintenance investments and invested in enhancing manufacturing efficiency. Further investments focused on plants for handling large components as well as for test beds. The effectiveness of development was increased using cutting-edge single-cylinder test engines and an open area test site for turbomachinery. In addition, investments were made to ensure even greater occupational and plant safety. MAN Diesel & Turbo boosted its global presence with new service outlets and acquired a services company in Brazil. A company in Switzerland that focuses on state-of-the-art magnetic bearings was also acquired. Renk modernized and expanded its production plants in Augsburg and Rheine and acquired a specialized company domiciled in Berlin to strengthen its slide bearings business.

Capital expenditures

€ million	2012	2011
Property, plant, and equipment, and investment property	447	355
Intangible assets	307	246
Investments	175	70
Total	**929**	**671**
of which: acquisition of additional interest in MAN FORCE TRUCKS	148	–
of which: acquisition of additional interest in EURO-Leasing	–	50
of which: other capital expenditures	781	621
of which: Germany	520	438
of which: other countries	261	183
Depreciation, amortization, and impairment*	384	353
Capital expenditure ratio in %	203	176

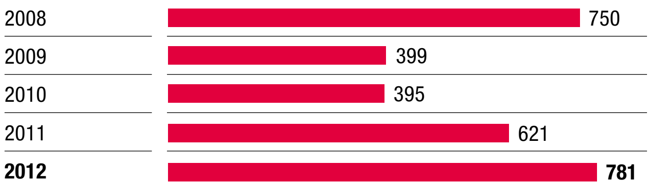
* Excluding earnings effects from purchase price allocations (2012: €91 million, 2011: €99 million) and excluding write-downs of investments of €190 million (Sinotruk) and €41 million (RMMV).

Capital expenditures by business area

€ million	2012	2011
Commercial Vehicles	740	567
Power Engineering	195	117
Others/Consolidation	– 6	– 13
MAN Group	**929**	**671**

Five-year capital expenditure trend*

€ million Annual average growth rate: 1.0% p. a.



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

* 2008 and 2009 excluding acquisition of Scania shares, 2009 and 2010 excluding acquisition of MAN Latin America and Sinotruk, 2011 excluding acquisition of additional interest in EURO-Leasing, 2012 excluding acquisition of additional interest in MAN FORCE TRUCKS.

Procurement

Central procurement reorganized as Executive Board function

Cost of materials by business area

€ million	2012	2011
Commercial Vehicles	7,309	7,674
Power Engineering	1,951	1,722
Others/Consolidation	– 152	– 82
MAN Group	**9,108**	**9,314**

Cost of materials by business area

in % of revenue	2012	2011
Commercial Vehicles	63	61
Power Engineering	46	43
Others/Consolidation	–	–
MAN Group	**58**	**57**

At around €9.1 billion (previous year: €9.3 billion), the MAN Group's procurement volume amounted to approximately 58% of revenue in 2012. This reflects the significance of procurement for production costs and ultimately for the Group's earnings.

Since September 1, 2012, procurement at the MAN Group has been organized as a separate Executive Board function. Its goals are to leverage the bundling effects to be gained from a central purchasing function and to procure non-production-related materials, in particular centrally at Group level, while nevertheless taking the different requirements of the MAN Group's various business areas into account.

Where legally permissible, cooperation is not limited to within the MAN Group, but also extends to the Volkswagen Group and its brands. Work groups have been set up in the procurement areas of the two Groups and focus issues have been defined to enable joint optimization of material costs in the future and to leverage potential synergies in MAN's and Volkswagen's purchasing management.

Procurement aims to select the right suppliers for long-term cooperation worldwide. Alongside cost-effectiveness, it focuses on quality, innovative ability, and, most importantly, reliability.

Sustainability is also a key principle of procurement, and applies to the selection of both suppliers and business partners. In addition to its obligations to its own employees, MAN expects suppliers to act responsibly and to comply with the basic principles set out in the MAN Code of Conduct. These cover corporate responsibility, transparent business relationships, fair market conduct, and the protection of data, business secrets, and business assets.

Employees

Targeted activities to recruit, develop, and foster outstanding young talents, employees, and managers

Employees at December 31 *

	2012	2011
Germany	30,513	30,187
Other countries	23,770	22,355
Total	**54,283**	**52,542**
Other countries in %	44	43

Employees by business area at December 31 *

	2012	2011
Commercial Vehicles	36,816	36,154
Power Engineering	17,108	16,052
Other	359	336
MAN Group	**54,283**	**52,542**

* Including subcontracted employees.

Employee structure

	2012	2011
Total	**54,283**	**52,542**
of which: female	7,780	6,846
of which: male	46,503	45,696
of which: subcontracted employees	1,802	2,364
of which: part-time employees	1,000	787
of which: fixed-term employees	1,741	2,581

Age structure 2012 *

Total	< 30	31 – 40	41 – 50	51 – 60	> 61
52,481	10,982	15,507	14,684	10,024	1,284

* MAN Group employees only, i.e., not including subcontracted employees.

Headcount

As of December 31, 2012, the MAN Group employed 54,283 people including subcontracted employees. This represents an increase of 1,741 employees, or 3%, as against the end of 2011. The main factors for this were various initial consolidation activities and the acquisition of all shares of the joint venture in India, which accounted for approximately 1,250 employees in total. Sales, service, and development functions were built up in the Power Engineering business area. The number of employees also rose as a result of newly acquired companies.

The proportion of employees in Germany versus those abroad changed only slightly. Our non-German companies employed a total of 23,770 people. This is an increase of 1,415 year-on-year. The number of employees working in Germany remained virtually constant.

The Group's permanent staff rose from 50,178 in the previous year to 52,481 on December 31, 2012. At 1,741, the number of employees with fixed-term contracts was down 33% on the previous year (2,581). The number of subcontracted employees fell significantly by 562 to 1,802.

Vocational trainees

High-quality vocational training ensures that MAN has outstanding young talents. Nearly 800 young people started their careers at MAN in Germany, Austria, and Switzerland in the fall of 2012. The secondary-school graduates start at MAN in over 30 vocational training careers and 19 combined vocational training and degree programs. The most popular technical tracks are for industrial mechanics, mechatronics technicians, and milling machine operators. The number of new vocational trainees increased by 6.5% year-on-year. A total of around 2,000 vocational trainees were employed at MAN's German plants and sales branches in 2012; on a global scale, there were 3,276 young talents (previous year: 2,921).

MAN Diesel & Turbo took over 88 of the total of 138 vocational trainees and students in combined vocational training and degree programs at manroland AG, the insolvent printing press manufacturer. As of March 1, 2012, they continued their training in eleven industrial technology careers at MAN Diesel & Turbo in Augsburg. The remaining 50 vocational trainees will continue their training at manroland web systems GmbH, Augsburg, a successor enterprise to the printing press manufacturer.

Continuous professional development for all employees

The continued success of the MAN Group as a leader in transportation and energy relies on having exemplary, highly qualified managers and specialists. MAN ensures that every employee has the opportunity to refine their skills individually and on a task-driven basis through its broad-based and targeted offerings for continuous professional development.

At MAN Truck & Bus's MAN Academy, employees receive qualifications in line with the corporate strategy as well as their needs. Thanks to standardized programs for employees in sales and technology across the world, the international organization can also meet uniform standards. MAN Latin America's focus for continuous professional development activities included a special program for employees in the sales area.

In addition to the internal opportunities for continuous professional development, MAN Diesel & Turbo's PrimeServ Academy has a special offering for employees in the service function. The focus is on internal advanced training for its own service engineers and courses for marine and power plant engineers.

At MAN's locations around the world, employees can gain international experience or transfer between the subgroups as part of a job rotation scheme. There are many attractive challenges within subgroups as well, for example the development of new products or of new areas of business.

Developing managerial talent at the MAN Executive Academy

Development programs at the MAN Executive Academy focus on strategic challenges specific to MAN and provide the ideal basis for our employees to further develop their specialist and leadership skills.

The individual development goals are agreed and implemented at annual employee appraisals. The one-on-one dialog between supervisors and employees is an integral component of MAN's corporate and leadership culture.

In order to continue to retain MAN's best managers, an international project group optimized the promotion processes. The focus was on transparency, appreciation, and recognizing employees' performance in the Company at a technical level.

Diversity and equal opportunities

MAN is a global advocate for increasing the number of women in managerial positions, in vocational traineeships, and among graduate staff and master-level workers. This depends on obtaining transparency about the current situation regarding the advancement of women, the extent to which goals have been achieved, and measures that have been planned and implemented. As of December 31, 2012, 8.2% of MAN's managers were female, compared with 7.3% in 2011. MAN already offers measures to train and develop female specialists and managers. Female engineering students are guided through their career development as part of mentoring programs.

In addition to flexible working models, childcare is also an important factor in reconciling work and family life. MAN offers kindergarten facilities at its Munich and Augsburg sites to employees with young children. The childcare offerings target toddlers up to three years of age and young children aged three to six.

Top employer

MAN successfully positioned itself in the long term as a top employer in the international arena in 2012, for example by enhancing communication and making it more efficient on the "Career" page of the MAN Group's website. Implementation at an international level was particularly successful at the production sites in Turkey and Poland, where cultural and linguistic needs were targeted for adaption as part of the top employer strategy. Employees from each location were involved under the "Personalities Wanted" advertising concept.

The CRF (Corporate Research Foundation) Institute certified MAN as a top employer in Germany and for the first time in Poland. In addition, the CRF Institute certified MAN Truck & Bus AG as a top automotive employer for 2012/13 and MAN Diesel & Turbo SE as a top employer in the engineering category for 2012. MAN Latin America was awarded the distinction "Great Place to Work in Brazil 2012."

MAN is continuing its multifaceted cooperation with the Munich Technical University in order to develop young talents for the long term. MAN is supporting 60 students in the mechanical engineering, electrical engineering and information technology, and economics departments. In the reporting period, the Company also sent representatives to numerous university career fairs in Germany and abroad to present its attractive areas of activity and to fill job vacancies.

The MAN Graduate Program gives high-achieving graduates a detailed insight into the Company's different areas of activity so as to optimally prepare them for the future challenges of working at MAN.

Preventive healthcare and occupational safety

Preventive healthcare and occupational safety are a top priority at MAN. The Company has created several initiatives at a Group level for preventing occupational illnesses. Examples include physiotherapy for assembly line workers, preventive occupational medicine examinations, skin protection days, cardiovascular risk consultations, and activities such as jogging meetups, strength training to prevent back pain, and seminars on nutrition and stopping smoking. If an employee becomes ill during working hours, MAN provides clinical and emergency treatment. Naturally, reintegration assistance after accidents is part of occupational safety at MAN.

A project for further expanding holistic, Group-wide health management kicked off in 2012. MAN Truck & Bus's Salzgitter location was awarded the Corporate Health Award in 2012 for its occupational health management. The innovative and holistic approach to a culture of health awareness and to maintaining employee health was assessed particularly positively, as was the optimal ergonomic alignment of all workplaces as part of risk and stress management.

Occupational pension system

Retirement provision that goes beyond the statutory pension systems often plays a very important role in securing living standards following retirement. For some time now, the MAN Group has contributed 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 is over, employees in Germany receive benefits provided by a modern, 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 employees 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.

Plan assets are accumulated during active employment using the employer- and employee-funded contributions, plus returns on capital market investments. Plan assets 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 specific indices and other suitable parameters.

Depending on country-specific practices, the employees at foreign locations 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.

Corporate Responsibility

MAN significantly improves its corporate responsibility performance and is admitted to the Dow Jones Sustainability Indices (DJSI World and DJSI Europe)

Global megatrends such as globalization and the associated increasing global trade, population growth, urbanization, and climate change are increasingly having an effect on business operations. In 2050, an estimated 30% more people will be living on our planet than there are today. This will lead to resource shortages and to the continued growth of megacities. At the same time, climate change will drive forward the development of resource-friendly solutions for generating energy. In turn, this will create new demands for transportation, mobility, and energy supplies.

MAN's corporate responsibility (CR) strategy, which is an integral part of MAN's corporate strategy, is designed to respond to these megatrends. Both aim for sustainable value creation. The MAN Group's CR strategy is being implemented in four fields of action: integration, the environment, the economy, and people. The concrete measures in these fields are linked to binding goals to be achieved by 2015.

The MAN Group's CR organization

Managing CR is a task for top management at MAN, which is why MAN SE's Management Board serves as the corporate responsibility steering committee. The Chief Human Resources Officer is ultimately responsible for CR. The CR Manager is responsible for enhancing and coordinating the CR strategy. He/She is the central contact person for all CR topics in the Company and is supported by the CR Excellence Team, which comprises experts from central functions and from the divisions.

Success in MAN's fields of action

Integration: By integrating CR into its divisions' strategies, operating processes, vocational training, and continuous professional development, as well as human resources activities and organizational development, the MAN Group is increasing its competitive advantage. This is supported by systematic stakeholder dialog and open communication.

MAN's 2011 CR Report, which was published on April 20, 2012, on the occasion of the Annual General Meeting, provided the stakeholders with information on the progress made in implementing the CR strategy, as well as nonfinancial performance indicators. The Company prepared this report in accordance with the internationally recognized Global Reporting Initiative (GRI) guidelines. MAN improved its application level from B+ to A+, the highest category. The 2011 CR Report was audited in full by PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft (PwC) in accordance with International Standard on Assurance Engagements (ISAE) 3000.

In 2012, MAN conducted an international, web-based survey of stakeholders for the third year in a row. Of the approximately 640 stakeholders selected to participate, 40% completed the survey. As in previous years, respondents believed that the greatest challenges facing the Company are conserving resources (74%) and climate change (67%). In addition, MAN participated in Rio+20, the Conference on Sustainable Development held by the United Nations (UN) in Rio de Janeiro, Brazil, joining in the discussion on sustainable passenger and freight transportation and presenting eco-friendly technologies in the fields of transportation and energy. As an official partner of the conference, which was attended by around 50,000 people, MAN provided 17 climate-friendly shuttle buses for the event.

MAN Truck & Bus initiated the "Manage responsibly" executive training initiative to integrate CR into human resources and management development. Managers are expected to implement MAN's CR and climate strategy in their own areas of responsibility by thinking and acting across hierarchical and departmental boundaries. To date, some 70 managers from management levels one through three have been trained in nine half-day training sessions. This training module has also been integrated into MAN Truck & Bus's graduate trainee program under the motto "We are responsible," not only to sensitize junior managers to corporate responsibility, but also to develop concrete implementation measures.

Environment: Climate change is one of the biggest global challenges facing politicians, business, and society. MAN has 32 production locations in 15 countries and takes its responsibility seriously: it developed a Group-wide climate strategy as early as 2011 with the aim of achieving a 25% reduction in CO_2 emissions at its production locations by 2020 (base year: 2008). However, the main way in which MAN can reduce global CO_2 emissions is via its product portfolio. This is why the Company is working actively both in the European Automobile Manufacturer's Association (ACEA) and the Verband der Automobilindustrie (VDA – German Association of the Automotive Industry) and directly with the political stakeholders to develop a system for measuring and certifying CO_2 emissions by heavy commercial vehicles. The Company supports a generally accessible approach to quantifying CO_2 values in order to increase transparency and, in turn, competition in the market.

MAN has developed core initiatives for both its sites and its products in order to achieve its climate goals: developing a "Consistently Efficient" product portfolio, fostering dialog with customers, identifying opportunities to cut CO_2 emissions throughout the product lifecycle, as well as using performance indicators to manage its climate strategy.

To determine potential ways to reduce CO_2 throughout the product lifecycle, MAN calculated the carbon footprint for nearly all product groups in the fiscal year. The calculation method used is based on the Greenhouse Gas Protocol's standards for product lifecycle analysis. The calculations confirmed our assumption: more than 90% of CO_2 emissions for all MAN products arise in the usage phase.

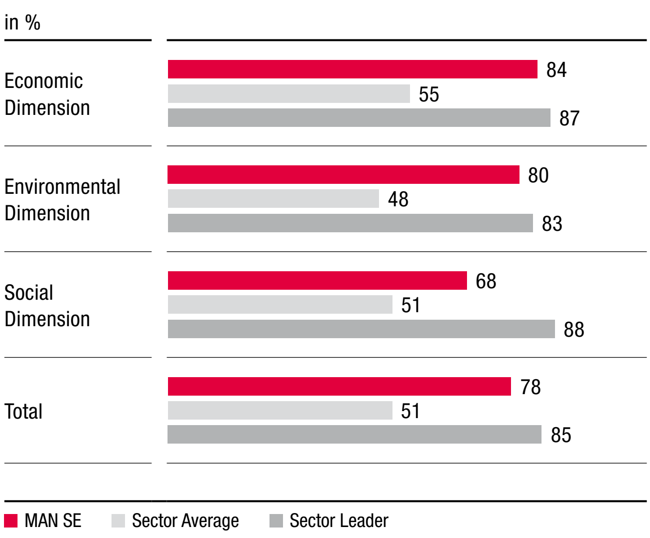
MAN will report on the progress made in implementing its climate strategy, and in particular on its target achievement, in its 2012 CR Report, which will be released at the beginning of May 2013.

The Company again focused on designing its product portfolio to be even more efficient and, as a result, more environmentally friendly in fiscal year 2012. See "Research and Development" for further information.

Economy: Corporate sustainability performance is regularly reviewed by various rating agencies. These agencies' independent assessments guide investors and analysts in their investment decisions. The MAN Group significantly improved its performance in 2012 in a number of sustainability ratings. One key rating in this area is provided by the Dow Jones Sustainability Indices (DJSI). In September 2012, MAN was included in both the DJSI World and the DJSI Europe indices, in which it received 78 out of 100 points. MAN is thus the only German company in the industrial engineering sector listed in the indices. In the 2012 assessment, MAN recorded particularly large improvements in the areas of climate strategy, environmental policy, and product stewardship. This was mainly due to the clear formulation of climate goals in the new MAN climate strategy.

The chart below shows the results achieved by MAN in 2012 compared with the industry average and with the sector leader.

Detailed valuation results for the Dow Jones Sustainability Indices (DJSI) for 2012



MAN's rating was raised by oekom research from C+ to B– in 2012, putting it in seventh place out of 38 companies in the industrial engineering sector. As a result, MAN has retained its "prime" investment status and is recommended as a sustainable investment from an ecological and social perspective.

MAN was listed in the Carbon Disclosure Leadership Index (CDLI), which rates the transparency of corporate information that is relevant to climate protection, for the third time in a row, reaching 84 out of 100 points (2011: 73 out of 100 points; 2010: 65 out of 100 points).

People: MAN has positioned itself as an attractive employer at an international level and has a comprehensive talent management program. High-quality vocational training ensures that the Company has outstanding young staff. At MAN, the focus is on equal opportunities and diversity at the workplace and in the workforce. The Company has also entered into cooperations with various universities around the world. These activities strengthen MAN as an employer brand.

MAN's goal is to significantly increase the percentage of women in both managerial and entry-level positions. This depends on obtaining transparency on the current situation regarding the advancement of women, the extent to which goals have been achieved, and the measures that have been planned and implemented. MAN's guidelines for filling management positions require diversity to be taken into account and, in particular, that women be considered in an appropriate manner.

MAN integrates people with disabilities: In 2012, some 5.2% of the MAN employees working in Germany were severely disabled. This satisfies the Company's legal requirement in Germany to employ a quota of 5%. Since 2011, MAN Latin America's "New Horizon" program has offered young people with disabilities the opportunity to work in the company on an equal footing, to take part in continuous professional development measures, and to receive scholarships for university studies if they show outstanding performance. In fiscal year 2012, 22 young women and young men participated in the "New Horizon" program.

Workplace safety and maintaining employee health are well-embedded goals of the CR strategy. In this context, five MAN Diesel & Turbo locations – Hamburg, Oberhausen, Deggendorf, Berlin, and Zurich (Switzerland) – and MAN Latin America's plant in Resende (Brazil) were certified in the reporting period in accordance with the Occupational Health and Safety Assessment Series (OHSAS) 18001 management system. This brings the number of certified MAN Group production locations to nine.

The MAN Group works actively to promote public welfare at its locations and involves its employees in this. The Company offers a volunteering program in Nuremberg, Munich, and Salzgitter together with its long-standing partner, the SOS Children's Villages organization. Employees can volunteer their time for various charitable projects in the organization's facilities. In consultation with their supervisors, employees can take half a day of their working time once a year to take part. In 2012, 47 MAN employees donated around 330 hours of their time.

Remuneration Report for Fiscal Year 2012

Executive Board remuneration

Resolutions determining the total remuneration of individual Executive Board members are prepared by the Presiding Committee of MAN SE's Supervisory Board. The full Supervisory Board then determines the total remuneration in accordance with legal requirements. The full Supervisory Board also regularly discusses the structure of the Executive Board remuneration system based on the Presiding Committee's proposals. This system is regularly modified and adjusted as needed in accordance with the recommendation set out in the German Corporate Governance Code (section 4.2.2).

The Supervisory Board's objective and duty is to set remuneration at an appropriate amount. The criteria for doing so include in particular the tasks of the respective Executive Board member, their personal performance, the economic situation, the performance of and outlook for the Company, and how customary the remuneration is compared with the Company's peer group, as well as the remuneration structure that applies to other areas of MAN.

The long-term remuneration component, which previously took the form of the MAN Stock Program, was redesigned in fiscal year 2012 and resolved by the Supervisory Board. A further change related to how Performance Component Two is paid out. In the future, the total of these components will be paid as a cash bonus rather than as a stock bonus.

Remuneration structure and components

The remuneration of Executive Board members comprises fixed salary payments and noncash benefits, pension and other benefit contributions, and performance-related components. The variable performance-related components comprise components linked to business performance and long-term incentive components.

A) Fixed remuneration

The fixed remuneration is paid as a monthly salary. In addition, Executive Board members receive noncash benefits consisting primarily of the provision of a company car and the payment of insurance premiums. Drivers for business trips are also available to Executive Board members.

The fixed remuneration is reviewed on a regular basis and modified where necessary, taking into account general salary trends and the area of responsibility of the individual Executive Board member.

B) Variable remuneration

The performance-related variable remuneration (bonus) is based on two performance components with equal weightings:

Performance Component One

Performance Component One is defined as the delta to the cost of capital, i.e., the difference between the return on capital employed (ROCE) and the weighted average cost of capital (WACC).

The average delta to the cost of capital for the current and following fiscal year in each case is measured against the target range set in advance by the Supervisory Board.

If the lowest value in the target range is not met, this represents a target achievement of 0%. The highest value in the target range corresponds to the maximum target achievement of 200%. Target achievement between the lowest and highest values of the target range is calculated on a straight-line basis.

Three-quarters of the fixed annual salary is awarded for a target achievement of 100%. The maximum possible bonus for this performance component is capped at one-and-a-half times the fixed annual salary for a target achievement of 200%. A retroactive bonus is paid if target achievement in the following year exceeds that of the current fiscal year, thus improving the average value, provided that this does not exceed the upper target achievement limit of 200%. Similarly, if target achievement is lower in the following year, the bonus for the following year is reduced accordingly.

The current target range for the delta to the cost of capital is – 5% to + 5%. Target achievement of 0% to 200% is represented as a straight line between these base points. A delta of 5.0% or more therefore yields one-and-a-half times the fixed annual salary and an ROCE equal to the cost of capital yields three-quarters of the fixed annual salary.

Performance Component Two

The second performance component measures the return on equity (before tax) of the fiscal year in question against a predetermined target. The degree to which the target has been achieved is calculated in the same way as for Performance Component One.

The current target range covers a return on equity of between 4% and 20%. Target achievement from 0% to 200% is represented as a straight line between these base points. The maximum possible bonus for this component – one-and-a-half times the fixed annual salary – is awarded for a return on equity of 20% or more. A return on equity of 12% yields three-quarters of the fixed annual salary.

The total bonus from both components is therefore limited to three times the fixed annual salary and is only paid out if the MAN Group generates a return on sales (ROS) of more than 2%.

Figures for fiscal year 2012

Targets and target achievement for bonuses in 2012 were as follows:

Performance component	100% of target	200% of target (CAP)	Actual value 2012	Target achievement	Bonus
1* (ROCE – WACC)	0%	5%	3.9%	136%	1.02 fixed annual salary
2 Return on equity	12%	20%	5.5%	18.75%	0.14 fixed annual salary

* This component is based on the average of the current and following fiscal year. It therefore represents a payment on account that may have to be paid back.

Supplementary information on the bonus for fiscal 2011: Performance Component One is based on an average of the current and following fiscal year in each case. Calculating this component using the actual figures for 2011 and 2012, which are now available, reveals that there is no need for adjustments to this component.

C) Long-term remuneration component

This component was previously offered in the form of the MAN Stock Program. The long-term remuneration component was redefined in fiscal 2012. This component is now based on the delta to the cost of capital (see Performance Component One).

The average delta to the cost of capital of the current and the two previous fiscal years is compared with the target range set by the Supervisory Board.

If the lowest value in the target range is not met, this represents a target achievement of 0%. The highest value in the target range corresponds to the maximum target achievement of 200%. Target achievement between the lowest and highest values of the target range is calculated on a straight-line basis.

A bonus amounting to one half of the fixed annual salary is awarded for a target achievement of 100%. The maximum possible bonus for this component is capped at one fixed annual salary for a target achievement of 200%.

The current target range for the delta to the cost of capital is 0% to + 20%. Target achievement of 0% to 200% is represented as a straight line between these base points. A delta of 20% or more therefore yields one fixed annual salary and a delta of 10% yields one half of the fixed annual salary.

D) Occupational pension system

Executive Board members' benefit entitlements comprise retirement, disability, and survivors' benefits. Entitlements to such benefits are accumulated under a defined contribution system, or "capital account plan," with the value of benefits dependent upon the performance of certain fund indices.

Every year, MAN SE contributes an amount equal to 20% of eligible remuneration, i.e., the sum of the contractually agreed fixed remuneration and variable remuneration. Executive Board members may elect to make contributions themselves out of their gross salary.

Contributions and interest are held in individual capital accounts. The performance of the capital account is directly linked to the capital markets and is determined by a basket of indices and other suitable parameters. The risk of the investments is gradually reduced as the beneficiaries get older (lifecycle concept).

At retirement, the beneficiary may elect to receive the balance of the capital account, or at a minimum the total amount of the contributions, as a lump sum payment, in installments, or as an annuity. In the event of disability or death, the beneficiary is paid the accumulated account balance, or a minimum of €2 million.

Executive Board members' remuneration in 2012

The remuneration awarded to active members of the Executive Board for their services in fiscal 2012 totaled €7,139 thousand plus €1,529 thousand for pensions (previous year: €7,322 thousand plus €895 thousand for pensions). Please see **note (36)** in the "Notes to the Consolidated Financial Statements" for details of the Executive Board members' individual remuneration, broken down into fixed and performance-related components as well as into long-term incentive components.

Additionally, a total of €1,480 thousand (previous year: €2,930 thousand) in severance payments was made in fiscal 2012 to former members of the Executive Board. Appropriate provisions were recognized for these payments at the time of departure. These payments are also described in detail in the abovementioned note in the "Notes to the Consolidated Financial Statements."

Special contract provisions

Under a provision that has been in effect since 2010, Executive Board members receive their fixed remuneration, bonus, insurance contributions, and contributions to the pension system until the end of their normal term of office, but for no more than two years, in the event of the early termination of their contract without good cause and at the instigation of the Company. Income from activities elsewhere is offset and the basis for calculating the amount of the contributions to the pension system reduced accordingly. MAN uses an Executive Board member's bonus for the past fiscal year and expected bonus for the current fiscal year as a basis for calculating the bonus paid as a severance payment following departure.

If an Executive Board member's contract is terminated at his or her instigation (members may terminate their contracts without having to cite reasons, by giving 18 months' notice), payments are only made until the end of the notice period. There are no special change-of-control provisions in place.

The following special arrangements were agreed in connection with the appointment of Mr. Berkenhagen and Mr. Schumm as members of the Company's Executive Board:

Neither member will be granted pension commitments by MAN. Instead, MAN has undertaken to assume the expenses associated with continuing the existing pension commitments in the Volkswagen Group. A special arrangement relating to total remuneration was also agreed with Mr. Berkenhagen. Further information can be found in **note (36)** in the "Notes to the Consolidated Financial Statements."

Supervisory Board remuneration

The structure and amount of Supervisory Board remuneration are stipulated by the Annual General Meeting and governed by Article 12 of the Articles of Association. They are based on the tasks and responsibilities of the Supervisory Board members as well as on the Group's economic performance.

The annual remuneration comprises the following components:

- basic (fixed) remuneration of €35,000;
- variable remuneration (bonus). This is based on actual earnings per share as reported in the consolidated financial statements. The variable remuneration is €175 for every €0.01 by which earnings per share exceed €0.50. It is capped at twice the basic remuneration.

Additional remuneration is paid to the chairperson and deputy chairperson of the Supervisory Board as well as to the chairpersons and members of the Supervisory Board committees. The Supervisory Board chairperson receives double and his/her deputy one-and-a-half times the fixed and variable remuneration. Members of the Supervisory Board's Audit Committee and Presiding Committee each receive an additional 50% and the chairpersons of the two committees receive an additional 100% of the basic remuneration.

Since the amendment to the Articles of Association resolved at the Annual General Meeting on April 1, 2010, the members of the Supervisory Board have additionally received an attendance fee of €500 in each case for meetings of the Supervisory Board or of Supervisory Board committees at which they have been present.

In addition, members of the Supervisory Board are reimbursed their expenses.

Remuneration and expenses reimbursed that are subject to value added tax are paid gross of value added tax if this is invoiced separately.

The variable component is based on MAN's earnings per share and is therefore not absolutely aligned with sustainable corporate development. To this extent, it could be said that the remuneration of the Supervisory Board is not in line with the recommendation contained in the Corporate Governance Code. The Company has therefore declared as a precautionary measure that it does not follow the recommendation set out in section 5.4.6 of the Code.

Approval for the remuneration of the first Supervisory Board of MAN SE was sought as a precautionary measure at the 2011 Annual General Meeting when the Supervisory Board's first term of office as defined by the Articles of Association ended.

Supervisory Board members' remuneration in 2012

The total remuneration payable to the members of the Supervisory Board for 2012 amounts to €952 thousand (previous year: €2,220 thousand). In addition, members of MAN SE's Supervisory Board received remuneration totaling €52 thousand (previous year: €73 thousand) for serving on supervisory boards at Group companies in fiscal 2012. Please see **note (37)** in the "Notes to the Consolidated Financial Statements" for a breakdown of the individual remuneration of the Supervisory Board members in 2012.

Additional information

Supervisory Board members did not receive any additional remuneration or awards for personal services, particularly advisory or intermediary services, during the reporting period.

Former Supervisory Board members who left the Board prior to January 1, 2012, do not receive any remuneration.


MAN
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The Divisions in Detail

MAN Truck & Bus

- **Order intake and revenue decline slightly**
- **Operating profit down significantly year-on-year**

MAN Truck & Bus's order intake and revenue closed fiscal 2012 down slightly year-on-year. The operating profit was significantly lower than the prior-year figure.

At €9.2 billion, order intake in fiscal 2012 was 4% below the prior-year level (€9.5 billion). At €8.8 billion, revenue was down by 2% on the previous year (€9.0 billion). Lower margins and increased costs led to a significant decline in operating profit to €225 million (€565 million). This reduced the return on sales to 2.6% (6.3%).

MAN Truck & Bus

€ million	2012	2011
Order intake	9,150	9,514
of which: Trucks[1]	7,737	8,024
of which: Buses[1]	1,413	1,490
Order intake (units)	80,034	84,449
of which: Trucks	74,483	78,635
of which: Buses	5,551	5,814
Revenue	8,822	8,984
of which: Trucks[1]	7,516	7,535
of which: Buses[1]	1,306	1,449
Vehicle sales (units)	79,966	83,418
of which: Trucks	74,680	77,643
of which: Buses	5,286	5,775
Production (units)	78,133	85,107
of which: Trucks	73,121	78,727
of which: Buses	5,012	6,380
Headcount[2]	34,879	34,239
Operating profit[3]	225	565
of which: Trucks[1]	249	526
of which: Buses[1]	– 28	38
of which: Financial Services	4	1
ROS (%)	2.6	6.3

[1] Prior-year figures adjusted due to a change in allocation between Trucks/Buses.
[2] Including subcontracted employees as of December 31.
[3] Including €1 million from consolidation adjustments between Financial Services and Trucks/Buses in 2012.

Economic environment

2012 was negatively impacted by the economic slowdown. This difficult market environment led to a reduction in the European market volume in the segment for trucks over 6 t to 274,000 units (previous year: 301,000 units). In this segment, MAN Truck & Bus reached a market volume of 17.0% (previous year: 17.9%).

The European bus market also saw a volume decrease, declining to 26,000 units (29,000 units). Here, MAN Truck & Bus recorded a market share of 12.6% (13.6%).

Business developments

The Trucks business recorded an order intake of €7.7 billion (previous year: €8.0 billion). Measured in units, the number of orders fell by 5% from 78,635 to 74,483 units. This development was mainly attributable to the year-on-year decrease in order intake in Europe, and in particular in Germany, France, Turkey, and Russia. In the Trucks business, order intake declined for light, medium, and heavy trucks alike. In the case of heavy trucks, demand for the TGX fell in particular. Order intake in the Buses business in 2012 amounted to €1.4 billion (€1.5 billion). This 5% decrease was primarily attributable to lower order intake in Spain, Germany, and the Netherlands. In the Buses business, volumes decreased in particular for coaches as well as for chassis.

MAN Truck & Bus generated revenue of €8.8 billion in the reporting period, down slightly on the previous year (€9.0 billion); however, revenue in the Trucks business (€7.5 billion) was on a level with the previous year. Unit sales of trucks decreased slightly year-on-year by 4% to 74,680 vehicles (previous year: 77,643). This decrease was attributable to the significantly higher decline in unit sales of light and medium trucks than for heavy trucks. In the case of heavy trucks, unit sales fell for the TGX in particular. Positive developments in regions outside of Europe, primarily in the Middle East, in particular in Saudi Arabia, partially offset the decline in the European commercial vehicles market in the reporting period. By contrast, revenue in the Buses business decreased by 10% to €1.3 billion (previous year: €1.4 billion). Revenue declined in particular for coaches and chassis. Germany, Turkey, and Spain were the main countries to see a decline in unit sales of buses.

Operating profit

At €225 million, operating profit fell significantly short of the prior-year figure (€565 million). As a result, the return on sales declined to 2.6% (previous year: 6.3%).

The Trucks business recorded an operating profit of €249 million (previous year: €526 million). Return on sales declined sharply from 7.0% in the previous year to 3.3%. This decrease was mainly attributable to the weakness of the European commercial vehicles market and the resulting pressure on margins. Declining unit sales in Europe were offset in part by increased sales in other regions. However, this led to changes in the country and product mix with lower average margins. The Buses business recorded an operating loss of €28 million (previous year: operating profit of €38 million). This was primarily attributable to a decline in the margins, lower unit sales, and the resulting deterioration in capacity utilization. In addition, MAN Truck & Bus's expansion of its sales and service, research and development, and quality functions, among others, led to an increase in costs. Operating profit for Financial Services amounted to €4 million (previous year: €1 million).

Production

Production volumes in the Trucks business were scaled back by 7% as against the previous year to 73,121 units (78,727 units) due to the increasingly difficult market environment and weakening demand. In addition, the Trucks business was impacted by nonrecurring items attributable to the inclusion of the Vienna production facilities in Rheinmetall MAN Military Vehicles GmbH in Munich as of December 31, 2011, and to the initial consolidation of MAN Trucks India. In the Buses business, production was scaled back by 1,368 units (–21%) due to the decline in demand.

Employees

As of December 31, 2012, MAN Truck & Bus had a workforce of 34,879 (previous year: 34,239). This figure includes in particular an increase of around 1,250 employees due to initial consolidation effects, of whom approximately 1,100 are employed at MAN Trucks India. The consolidation of additional companies in the Asia-Pacific region and in Kazakhstan led to a total increase in the workforce of around 150 employees. Conversely, the number of employees declined by about 610 – of whom 357 were subcontracted employees – in fiscal 2012, mainly in production. This measure was another response to the decline in demand. 20,474 staff were employed in Germany (previous year: 20,492) and 14,405 outside Germany (previous year: 13,747). The company had 2,442 vocational trainees as of December 31, 2012 (previous year: 2,174). The proportion of vocational trainees in 2012 was 6.6% (6.1%).

Research and development

Research and development expenditures rose to €384 million in the period under review (previous year: €309 million). This corresponds to 4.4% (3.4%) of revenue. An average of 2,506 staff (previous year: 2,088) were employed by the company's research and development departments worldwide during the year.

MAN Truck & Bus successfully presented its new TG series at the 2012 IAA Commercial Vehicles Show. The light, medium, and heavy truck series all fully comply with the Euro VI emission standard and are thus virtually pollutant-free. At the show, MAN Truck & Bus also unveiled the MAN Concept S truck study with an aerodynamically optimized AeroLiner trailer produced by its partner of many years, Krone. This innovative semitrailer combination saves up to 25% of fuel without sacrificing load capacity. MAN Lion's Coach EfficientLine made its world premiere. In addition, the MAN Lion's City Hybrid city bus was awarded the "Green Bus Award" for environmental friendliness.

The Metropolis research vehicle – a hybrid truck that can be used for emission-free, ultra-low-noise heavy urban transportation – is another pioneering model. If powered using electricity from renewable sources, the MAN Metropolis can operate without emitting any CO_2 at all. The research vehicle has been deployed as a garbage collection vehicle since the end of 2012 in a two-year practical test.

Capital expenditures

Capital expenditures again rose significantly compared with the previous year, amounting to €640 million (€454 million) and continued to focus on driving forward the development of new products such as engines that comply with the strict criteria laid down in the new Euro VI emission standard. Other investment focuses were on enhancing the existing product portfolio, continuously improving production quality and efficiency, and expanding and strengthening the global sales and service network.

One-third of capital expenditures (€217 million) was attributable to capitalized development costs in the areas of new products for trucks (€177 million), buses (€34 million), and external engines (€6 million). €232 million was invested in property, plant, and equipment and €150 million in the acquisition of the remaining shares of the former joint venture MAN FORCE TRUCKS.

An extension to the buildings at the Munich location allowed a number of previously decentralized R&D operations to move together. This improved efficiency in the development area. The modernization of axle production in Munich facilitated additional quality enhancements in truck production. The Nuremberg engine plant invested in expanding its environmentally friendly test bed capacities to include electricity recovery and in the expansion of the sequencing center. The modernization program for the NEOPLAN plant in Plauen, begun in 2011, was continued in 2012. The largest EPD plant in Europe was opened at the bus production facility in Ankara. In this new plant, up to 9,000 bus bodies a year can undergo electrophoretic deposition, which provides extensive corrosion protection.

The construction of a new production plant for commercial vehicles in St. Petersburg, which started in fiscal 2011, continued in the reporting period. In the medium term, the plant is expected to produce up to 6,000 trucks a year for the local market. This paves the way for MAN Truck & Bus to participate in the long-term market growth expected for Russia and the other countries in the CIS.

The global expansion and renewal of the sales and service network and measures to improve global spare parts logistics continued to be major investment focuses in 2012. MAN Truck & Bus expanded the state-of-the-art logistics center opened in 2011 in Salzgitter to include a second stage of the complex.

Effective March 28, 2012, MAN Truck & Bus acquired the remaining shares of the former joint venture MAN FORCE TRUCKS from its Indian partner FORCE as part of the contractual arrangement entered into at the end of 2011. The renamed MAN Trucks India produces CLA series trucks for the Indian market as well as for selected markets in Africa and Asia.

Outlook

Over the course of 2012, the outlook for the commercial vehicles market continually deteriorated due to the weak economy. Consequently, demand is not expected to recover in 2013. A negative trend is expected in the European truck market in 2013, despite purchases possibly being brought forward due to the introduction in 2014 of the Euro VI emission standard. Europe remains MAN Truck & Bus's core market. At the same time, the international growth strategy, which is focused on the BRIC countries, is being continued.

Further growth is expected for the Russian economy in 2013. The truck market continues to offer growth potential following the strong declines seen during the crisis years. However, the pace of growth in 2013 will be slower than in 2012. In China, economic growth is slowing. In fiscal year 2013, the truck market is expected to stabilize at 2012 levels following the negative market performance in the reporting period. In India, the truck market failed to match prior-year levels due to weaker economic growth in 2012. MAN Truck & Bus is expecting a renewed positive market trend in 2013. A similar development is expected for most of the other markets in the Asia-Pacific region. This also applies to the Middle East and Africa regions given the expectations of stable economic growth and continued infrastructure expansion.

For 2013, MAN Truck & Bus expects the global market for buses to be above the 2012 level, despite the slight decline in demand in Europe.

The Management of MAN Truck & Bus expects revenue in 2013 to be down slightly on the previous year. If the economic situation does not deteriorate any further, MAN Truck & Bus is expecting the operating profit and thus the return on sales to improve slightly in 2013. MAN Truck & Bus will systematically work to sustainably increase its earnings quality in an increasingly difficult market environment with even fiercer competition. Comprehensive measures have already been taken to cut costs, increase efficiency, and introduce more flexibility into production.

MAN Latin America

- **Revenue and operating profit impacted by market decline**
- **Ten-year market leadership confirmed for trucks**

MAN Latin America generated revenue of €2.9 billion in 2012 (previous year: €3.6 billion), a figure that was primarily impacted by the introduction of the Euro V emission standard in Brazil. The company recorded a return on sales of 8.0% (11.2%) over the reporting period despite the less favorable market situation, thanks to cost management and adjustments to production.

MAN Latin America

€ million	2012	2011
Order intake	2,870	3,579
Order intake (units)	56,305	72,102
Revenue	2,870	3,579
Vehicle sales (units)	56,305	72,102
Production (units)	47,844	83,201
Headcount*	1,937	1,915
Operating profit	229	400
ROS (%)	8.0	11.2

* Including subcontracted employees as of December 31.

Economic environment

The economy in Brazil in the past fiscal year was characterized by a decline in growth to a low level. The Brazilian government introduced a variety of fiscal stimuli from the beginning of 2012 to ensure stable development in all key market segments, and in particular in the automotive and infrastructure sectors. The incentives included tax cuts, cheap finance for capital goods spending, as well as a large number of government investments. For example, the government announced purchases of 8,000 trucks plus another 8,570 school buses. MAN Latin America has already received orders for 5,600 of these vehicles.

The introduction of the Euro V emission standard also dampened demand in the Brazilian commercial vehicles market. In addition, the availability of, and terms for, customer financing deteriorated at times. Against this clouded backdrop, new registrations in Brazil declined to a total of 136,623 trucks over 5 t (–20%) and 28,809 buses (–17%) in 2012. The export markets for trucks and buses remained largely stable, with a total export volume of 37,991 vehicles (–6%).

Business developments

In this difficult market environment, MAN Latin America sold 39,317 trucks (previous year: 52,002) in Brazil. As a result, the company maintained its position as the local market leader for trucks over 5 t for the tenth successive year with a 30.3% share of new registrations (29.7%). It sold 8,008 bus chassis (previous year: 10,573) in the Brazilian market. With a market share of 27.9% (32.2%), the company confirmed its number two position in the local bus market.

MAN Latin America sold 8,980 (previous year: 9,527) trucks and bus chassis in the Latin American export markets, which were largely stable. The company also secured a leading position in the truck export business with a 26.1% share of the trucks exported from Brazil. The share of bus chassis exported increased by 6 percentage points to 19.2%.

A total of 56,305 commercial vehicles were sold during the year under review. This represents a 22% decrease compared with 2011, a record-setting year. Production was scaled back sharply to a total of 36,739 trucks and 11,105 buses.

Operating profit

Operating profit amounted to €229 million (previous year: €400 million) despite the less favorable situation. Although MAN Latin America continued to benefit from strong demand for the remaining Euro III stock in Brazil in the first quarter, dealers have only been permitted to sell Euro V vehicles since the second quarter. Customer uncertainty about the new technology, which is associated with higher procurement costs, led to a significant decline in demand. This led to increased competition, while market volume was down overall. Against this backdrop, it was impossible to pass through the price increases due to technical factors to the extent necessary. The return on sales amounted to 8.0% (previous year: 11.2%) in full year 2012.

Employees

At the end of 2012, MAN Latin America had a total workforce of 1,937. In addition, some 3,800 employees were on the payroll of the company's partners or service providers as part of the "Consórcio Modular" production system.

Capital expenditures; research and development

MAN Latin America's "Consórcio Modular" business model, in which the partner companies are also suppliers and investors, allows less capital to be employed and requires less investment. Capital expenditures in 2012 amounted to 3.5% of revenue. They were largely due to the introduction of the new product range that complies with the new Euro V emission standard and to the D08 engines and MAN TGX truck series.

Research and development expenditures in 2012 amounted to €53 million or 1.8% of revenue. An average of 468 staff were employed directly by the company (including subcontracted employees) and 172 employees of partners or service providers worked in R&D.

R&D activities focused on extending the Euro V emission standard to additional models in the product range, the development of customized solutions, and synergy projects with MAN Truck & Bus. The latter include, for example, continued localization of the D08 engine and the MAN TGX truck series, as well as the joint low-floor bus platform.

In the bus segment, a large number of customer-specific technical modifications and improvements to existing series, particularly in the engine and gears segment, were implemented. These tailored developments made a key contribution to confirming MAN Latin America's number two position in this especially competitive market.

Outlook

Starting in mid-September 2012, the Brazilian government introduced additional incentives designed especially for the commercial vehicles sector and comprising subsidized finance and tax cuts. These additional measures, which run until the end of 2013, helped spark a market recovery in the fourth quarter of 2012.

Increased demand for trucks and buses in Brazil is expected in the coming years. A number of factors should have a stimulating effect, including the 2014 FIFA World Cup, the 2016 Olympic Games, and the development of newly discovered raw materials deposits. Growth is also likely to be driven by the urgent need to renew Brazil's aging fleet of transportation vehicles, whose average age is over 16 years. In addition, MAN Latin America is increasing its activities in emerging economies and developing countries in particular with the aim of expanding its exports for the long term.

New business opportunities will emerge both from the localization of the MAN TGX series in the super-heavy truck market segment, where MAN Latin America did not previously have a presence, and from the integration of MAN D08 engines into the existing offering. Both measures will contribute to the further expansion of the after-sales business.

In fiscal year 2013, a moderate but steady recovery in the Brazilian commercial vehicles market is expected despite ongoing uncertainty due to global economic developments. This recovery is being supported by government stimulus measures.

Based on these assumptions, the management of MAN Latin America expects a slight increase in revenue in 2013. Return on sales is expected to be down slightly on the previous year due to continued intense competition and the associated price pressure. These forecasts assume no significant change in exchange rates.

MAN Diesel & Turbo

- **Order intake down 5% year-on-year**
- **Operating profit declines slightly**
- **Return on sales remains high**

MAN Diesel & Turbo's order intake amounted to €3.5 billion, just short of the prior-year figure of €3.7 billion. By contrast, revenue rose to €3.8 billion, 5% above the previous year (€3.6 billion). The increase in fiscal 2012 was attributable to the Turbomachinery and Power Plants strategic business units. At €437 million, operating profit was down on the previous year (€460 million). As a result, the return on sales declined to 11.6% (12.7%). The order backlog declined compared with the previous year from around €3.8 billion to €3.4 billion.

MAN Diesel & Turbo

€ million	2012	2011
Order intake [1]	3,510	3,692
of which: Engines & Marine Systems	1,296	1,605
of which: Power Plants	668	640
of which: Turbomachinery	1,546	1,447
Revenue [1]	3,780	3,610
of which: Engines & Marine Systems	1,552	1,670
of which: Power Plants	773	647
of which: Turbomachinery	1,455	1,293
Headcount [2]	14,863	14,039
Operating profit	437	460
of which: Engines & Marine Systems	319	359
of which: Power Plants	–47	–22
of which: Turbomachinery	165	123
ROS (%)	11.6	12.7

[1] Including consolidation adjustments between the Engines & Marine Systems, Power Plants, and Turbomachinery strategic business units.
[2] Including subcontracted employees as of December 31.

Economic environment

MAN Diesel & Turbo's markets are subject to various regional and economic influences. This means that the performance of the different businesses is usually independent of one another.

In the shipbuilding industry, high but declining deliveries continued to increase the overcapacity in the merchant fleet. Freight rates fell as a result and, in conjunction with high operating and fuel costs, led to a decline in orders for new merchant ships. The ongoing difficulties in connection with ship financing intensified this trend.

By contrast, order activity for offshore and special ships remained at a high level. Orders were received for new drilling rigs and production platforms as well as for supply and construction vessels for tapping new oil and gas reserves, since the oil price has risen in recent years, and is likely to remain at a high level. Demand for tankers for transporting liquid natural gas (LNG) also remained at a high level due to the relatively low price of natural gas. Overall, China, South Korea, and Japan continued to be the dominant shipbuilding countries, with a global market share of upwards of 80%, measured in terms of the tonnage ordered. In offshore and special shipbuilding, orders were also received from shipbuilders in other countries such as Brazil, the United States, and Singapore.

The market for decentralized diesel and gas engine power plants declined slightly while remaining at a relatively high level in 2012, against a backdrop of weaker economic output but sustained high energy demand from the world's population. Orders were received in 2012 in particular from Africa and the Middle East. Market activities for diesel and heavy oil power plants declined in line with expectations, while orders for natural gas power plants continued to rise. Although liquid fuel power plants continue to account for a slight majority of orders, the trend toward natural gas power plants was confirmed. Pure gas engines or dual-fuel engines are increasingly being used, in line with the trend towards generating electricity from natural gas. These dual-fuel engines, which are also used on ships, can run on both liquid fuel and natural gas.

Orders for new compressors and turbines declined slightly due to the weaker economy. Although customer interest remained high, economic uncertainty and tougher financing conditions led to a delay in awarding contracts. In general, there is still a considerable need for capital spending at a number of industrial plants deploying turbomachinery from MAN Diesel & Turbo. This is attributable to increasing consumption due in turn to global population growth, the rapidly expanding middle class in the emerging economies, and the resulting high demand for energy and primary materials. As a result, capital expenditures in the oil and gas segment remained at a high level due to higher oil prices. Equally, the focus regions in the turbomachinery business in 2012 were primarily emerging economies and developing countries, and in particular Brazil and China.

Business developments

Measured in units, worldwide demand for new merchant ships declined sharply compared with 2011. While the tanker and ferry business remained at a relatively constant level, demand for bulk cargo carriers and container ships fell sharply. This resulted in an order intake for two-stroke engines at MAN Diesel & Turbo licensees of only around 7 GW (gigawatts) in the year under review compared with 12 GW in the previous year. Worthy of mention is the order placed by an American shipping company for the first container ships with liquid gas-fueled two-stroke engines, each with an output of 25,000 kW. The container ships' low-emission gas engines will make them among the most environmentally friendly of their type.

Order intake for four-stroke medium-speed diesels used as propulsion engines and for powering onboard equipment also declined year-on-year. Orders were received for 999 original and licensed engines with a combined output of 1,832 MW; in the previous year, 1,811 engines with an output of 3,311 MW were ordered. In addition to licensed on-board gensets, orders were also placed for propulsion engines in offshore and other special segments, in line with market demand. In the offshore sector, new orders for a total of 60 engines for 15 supply ships were taken. Equally noteworthy are the orders for twelve dual-fuel engines for the construction of three liquid gas tankers in South Korea. MAN Diesel & Turbo was awarded a contract from Norwegian Cruise Lines, the American cruise ship company, for the maintenance and supply of spare parts for the engines of eleven cruise ships. In addition, MAN Diesel & Turbo received the first order for a next-generation turbo compound system (TCS-PTG) for a marine application. The power turbine saves additional fuel by recovering energy from the exhaust gas.

This allowed MAN Diesel & Turbo to maintain its market-leading position for marine engines. Nevertheless, at €1,296 million, total order intake in the Engines & Marine Systems strategic business unit was down significantly on the previous year (€1,605 million).

Together with its licensee partners, MAN Diesel & Turbo received orders for a total of 292 four-stroke engines for use in power plants, mainly from emerging economies and developing countries. The great potential offered by Africa was confirmed once again by, among other things, a major order for 49 engines in Angola. These power plant solutions can bridge the energy supply gap faced by many places in this region quickly and precisely. At €668 million, order intake in the Power Plants strategic business unit exceeded the prior-year figure of €640 million by 4%.

The Turbomachinery strategic business unit recorded a further increase in order intake both for chemical and fertilizer plants, as well as in the oil and gas industry segment, bucking the general market trend. For example, a further eight very large machine lines were ordered for use in China in plants creating synthetic fibers. MAN Diesel & Turbo received an initial order for four compressors from the new MAX1 series. Depending on its size, each compressor can generate 2,500 to over 7,000 tons of oxygen per day. The after-sales business also made a very good contribution to order intake. Petroleo Brasileiro (Petrobras) extended its service agreement with MAN Diesel & Turbo, entered into in 2002, for the corrective and preventive maintenance and operational support of 20 MAN gas turbines and compressors on four Brazilian offshore platforms for an additional five years. At €1,546 million, the Turbomachinery strategic business unit's order intake was up 7% on the previous year (€1,447 million).

Revenue development

The orders that MAN Diesel & Turbo receives are mainly part of major investments with delivery times ranging from just under a year to several years; partial deliveries based on construction progress are typical. Revenue in the new construction business therefore tends to mirror the order intake trend after a corresponding delay.

In 2012, the delivery of two-stroke engines exclusively built by licensees declined, but remained at a comparatively high level. These engines are largely used on merchant ships. Noteworthy deliveries in 2012 included, among others, the completion of the first container ships fitted with particularly low-emission engines with an output of 68,000 kW each for the Orient Overseas Container Line shipping company. These produce fuel savings of around 5% compared with ships with conventional engines. More than 100 engines of this type have already been delivered or are in the order backlog. The tough situation experienced by merchant shipbuilding also impacted the four-stroke engine business. However, this was offset in part by deliveries in other market segments such as offshore and passenger ships. At €1,552 million, revenue generated by the Engines & Marine Systems strategic business unit was unable to match the prior-year figure (€1,670 million) as a result of the tense economic situation in the shipbuilding sector.

In the Power Plants strategic business unit, revenue rose year-on-year in 2012. The order from 2011 for several large dual-fuel engines for a power ship for a Turkish customer was delivered. At €773 million, the Power Plant strategic business unit's revenue was up on the previous year (€647 million).

The Turbomachinery strategic business unit significantly increased revenue compared with 2011. The Chinese market played a key role in this. The delivery of six large machine lines for plants for creating primary materials for the plastics industry reinforced MAN Diesel & Turbo's strong market position in China. A geared compressor was delivered to Canada for use in CO_2 storage. In Europe, MAN Diesel & Turbo products were represented in a number of projects for transporting and storing natural gas. The first new gas turbine with an output of 6 MW was delivered to a German customer, marking the start of a highly efficient family of gas turbines. Revenue in the Turbomachinery strategic business unit amounted to €1,455 million, up 13% on the 2011 figure (€1,293 million).

Operating profit

Despite a slight increase in revenue, MAN Diesel & Turbo was unable to match its prior-year profitability levels in full. At €437 million, operating profit was down 5% in the reporting period compared with the previous year (€460 million). Return on sales decreased from 12.7% in the previous year to 11.6%. Profit in the Engines & Marine Systems strategic business unit declined year-on-year to €319 million (previous year: €359 million). This was due to changes in the product mix, and in particular a drop in the license business, as well as ongoing fierce competition in the new construction business. As in the other two strategic business units, increased after-sales volumes had a positive effect here. The recognition of project-specific provisions for plants under construction impacted results for the Power Plants strategic business unit, resulting in an operating loss of €47 million (previous year: operating loss of €22 million). Profit in the Turbomachinery strategic business unit improved from €123 million in 2011 to €165 million. Higher revenue and positive effects from changes in the product mix contributed to this.

Employees

As of December 31, 2012, MAN Diesel & Turbo employed 14,863 people including subcontracted employees (previous year: 14,039). This year-on-year increase is mainly attributable to the expansion of the sales, service, and development functions, as well as to the consolidation of additional companies.

Capital expenditures

Capital expenditures in the 2012 reporting period saw a significant increase to €164 million year-on-year (€93 million). Investments in diesel engine production focused on equipment for large component processing and injection production, as well as test beds. The main thrust of engine development was the construction of cutting-edge single-cylinder test engines, which are enhancing the effectiveness of development activities significantly. Investments in the general infrastructure related primarily to occupational and plant safety.

MAN Diesel & Turbo invested in machinery and equipment at the turbomachinery production and test sites in Oberhausen and Zurich so as to maintain the efficiency of plant and machinery and to increase production flexibility. Another focus was the investment in an open area test site. This test facility is used both for gas turbines and for screw compressors and compressor trains, and boasts extremely high capacity utilization thanks to its multifunctional design.

New service centers were set up in Germany, Jordan, Canada, and Senegal in order to increase MAN Diesel & Turbo's global presence. Additionally, a service company in Brazil and a company in Switzerland producing highly specialized magnetic bearings were acquired.

Research and development

Emissions reduction is a key technological driver at MAN Diesel & Turbo. As natural gas becomes increasingly important, MAN Diesel & Turbo is focusing its development work on this low-emission alternative. Be it for marine propulsion units, for generating electricity, or as mechanical drives – the company's engine and turbine program is being adapted to current and future developments. In the year under review, MAN Diesel & Turbo invented a prototype of its 20V35/44G Otto gas engine, developed for stationary use in power plants. The single-charge engine has the highest output in its segment, at 10.6 MW. Numerous innovative technological components make the engine extremely efficient, allowing it to comply with all currently known emission limits. MAN Diesel & Turbo also presented a new dual-fuel engine with a maximum output of 5.3 MW. This engine's selling point is its flexibility – it can be fueled either by diesel or by natural gas. It is also possible to convert existing diesel engines to gas and diesel on site. In its gas mode, this engine already complies with the International Maritime Organization (IMO) emission limits for marine transportation worldwide, which come into effect starting in 2016. This means that nitrogen oxide emissions in certain coastal waters must be cut by around 80% compared with 2000 from 2016 onwards. In the Turbomachinery strategic business unit, a new gas turbine family was unveiled and launched on the market; a new series of compressors is nearly ready to be launched.

Increasing energy efficiency presents a continuous challenge. For example, from 2013 onwards all newly built ships must comply with the standards laid down in the International Maritime Organization's Energy Efficiency Design Index (EEDI). MAN Diesel & Turbo has the technological capabilities to comply with the EEDI standard. One example of this is the G-type two-stroke engine program, which saves fuel thanks to its ultra-long strokes.

A prominent innovation in the industrial compressors business segment is the new generation of MAX1 axial compressors for very large air separation equipment. They are primarily used in GTL (gas-to-liquid) and CTC (coal-to-chemicals) applications, i.e., the extraction of high-purity fuels and other hydrocarbons from natural gas and coal, and feature improved efficiency, as well as a high level of robustness and cost-effectiveness. MAN Diesel & Turbo secured its first order for four machines in 2012. It expanded its expertise in the area of CO_2 storage and transport, and optimized the design of its geared compressors. Another key area was magnetic bearings, which are found in enclosed machines with integrated high-frequency engines. These machines are used in the transportation and storage of natural gas, and are also destined for the subsea market of the future.

In the power plants business, the focus is on increasing efficiency and reducing emissions. By combining MAN Diesel & Turbo products such as engines and turbines, it can achieve a level of plant efficiency that is well above current values using technologies such as combined heat and power and combined cycle processes. Engines for combined heat and power applications are optimized so that waste heat flows can be used in industrial processes or for district heating – with the highest possible electrical efficiency and at the highest temperature level.

In addition, a large number of measures for increasing efficiency through retrofitting are being launched. The company's comprehensive service offering, MAN PrimeServ, enables it to upgrade the engines, turbines, and compressors in existing plants by equipping them with new, efficient technologies. Packages for optimizing propeller efficiency and slow steaming round out the portfolio.

Outlook

A low level of economic growth is anticipated for 2013 and 2014 in the markets relevant for MAN Diesel & Turbo.

The declining market trend in the Engines & Marine Systems strategic business unit in 2012 is expected to continue in 2013 and 2014. High levels of overcapacity in the merchant fleet still dominate the market for merchant shipbuilding. Although the supply of ships will continue to decline, the market is not expected to recover in the coming years. This will lead to strong price pressure for shipbuilders and suppliers, and to another decline in shipbuilding worldwide. Solid growth for offshore and special ships will offset this in part. Demand for ships for navy and coast guard applications will hold steady.

The market trend for energy generation follows the macroeconomic trend. After seeing strong growth rates in 2011 in particular, economic performance remained below expectations in 2012. However, the emerging economies and developing countries are expected to see a slight market recovery in 2013 and 2014, since the general demand for energy remains high. The trend towards more decentralized energy supplies, both here and in the developed economies, is also likely to have a positive long-term effect on the business. The shift in power plants fueled by diesel or heavy oil towards natural gas power plants will continue.

The processing industry should continue to see further positive, albeit slower growth in 2013 and 2014 in the emerging economies. Population growth will see a sustained high demand for primary materials. Price pressure will increase as a result of greater competition. The market trend in the oil and gas industry is encouraging. Capital expenditures in developing new deep-water oil reserves and in the extraction and sea transportation of natural gas are currently at a high level. Due to its comparatively low price, natural gas will lead to new developments in, among other things, energy infrastructure, transportation, petrochemicals, and production in the United States in particular. However, the trend towards using natural gas as an alternative to oil will have a positive effect on all key regions. MAN Diesel & Turbo is therefore anticipating further growth in the oil and gas industry in 2013 and 2014.

Countries outside of Europe will remain an important growth driver in 2013 and 2014. MAN Diesel & Turbo will therefore continue to systematically implement its internationalization strategy. A cornerstone of this strategy is the BRIC countries. MAN Diesel & Turbo's growth will be further boosted by the expansion of its locations in Aurangabad, India, and Changzhou, China.

Further expanding the after-sales business also offers significant growth potential for MAN Diesel & Turbo. Going forward, stricter requirements with respect to emissions, environmental compatibility, and efficient operation, together with the large number of engines and plants in operation, provide the basis for profitable, long-term growth.

The management of MAN Diesel & Turbo expects an increase in order intake in fiscal 2013. Revenue in 2013 is expected to be below the prior-year level due to the weaker order intake in fiscal 2012. The return on sales will be negatively impacted by the ongoing decrease in the license business in the marine sector, fierce ongoing competition, and the billing of major plant engineering orders at below-average profitability. The MAN Diesel & Turbo business area is therefore expected to record a single-digit return on sales in 2013.

Renk

- **Order intake up 15%**
- **Revenue climbs 22% year-on-year**
- **Operating profit significantly improved**

Renk

€ million	2012	2011
Order intake	525	456
Revenue	476	389
Headcount*	2,245	2,013
Operating profit	66	53
ROS (%)	13.8	13.6

* Including subcontracted employees as of December 31.

Economic environment

In 2012, the effects of the European debt crisis and muted economic growth in various regions of the world led to a mixed performance by the German engineering sector as well, depending on the customer industries involved. This was also reflected in the order intake figures for Renk's individual business areas to the extent that these are directly dependent on economic trends. This is particularly the case for slide bearings and gear units for the cement industry and for energy generation and distribution plants.

Business developments

Renk's broad range of specialist applications in the gear units and bearings businesses serves quite different markets. The Group lifted its order intake from €456 million in the previous year to €525 million in 2012. The Vehicle Transmissions and Special Gear Units businesses made a particular contribution here, with both recording double-digit growth. Orders for slide bearings remained on a level with the previous year, while the Standard Gear Units business experienced a sharp decline. Revenue figures for Renk were also up significantly in the period under review. At €476 million in 2012, they recorded an increase of more than 22% compared with the previous year. The Standard Gear Units business achieved the highest growth rate, followed by Special Gear Units and Slide Bearings.

The most important new order in the Vehicle Transmissions business was a major transmissions order from South Korea. In addition, a series of orders were received for customized applications and integrated logistics services. By contrast, demand for test beds for wind turbine systems in particular remained significantly below expectations.

Despite the weakening economy, the Slide Bearings business booked roughly the same amount of orders as in the previous year. Growth in emerging economies and developing countries offset the declines in industrialized regions. This confirms our strategy of establishing a presence in future growth markets in the form of dedicated local service locations. In addition, ADMOS Gleitlager Produktions- und Vertriebsgesellschaft mbH, Berlin (ADMOS), was acquired in the period under review.

Order intake in the Special Gear Units business was extremely positive. New orders for sophisticated transmissions solutions for maritime applications, in particular for high-performance propulsion concepts, led to growth in the business increasing by nearly one-third year-on-year. Complex gear unit solutions, enabling the combined use of different propulsion sources as needed, were deployed in coast guard, navy, and megayacht applications. By contrast, the business for stationary industrial large-scale gear units was impacted by weak demand from plant manufacturers in the cement and plastics industries.

The Standard Gear Units business was faced with divergent trends. On the one hand, its commercial vessel gear units benefited from the boom in LNG tankers; on the other, order intake for 5 MW wind power gear units declined significantly due to the delays in offshore wind park construction.

The positive trend in the businesses was also reflected in the order backlog. At the end of 2012, orders amounting to €634 million had been booked, 8% more than at the beginning of the year.

Operating profit
The revenue trend was also reflected in operating profit. After €53 million in the previous year, Renk generated an operating profit of €66 million in fiscal year 2012 and increased the return on sales to 13.8%, after 13.6% in the previous year.

Employees
The Renk Group employed 2,245 people including subcontracted employees on December 31, 2012 (previous year: 2,013). In addition to the increase resulting from the acquisition of ADMOS, the good order situation required a further increase in the workforce, primarily at Renk's three German sites.

Capital expenditures
At €31 million, capital expenditures in 2012 significantly exceeded the prior-year figure (€24 million). This also includes the acquisition in full of ADMOS. Capital expenditures in property, plant, and equipment were focused on the Augsburg site. In addition to the construction of an office building for the Vehicle Transmissions business, they were primarily used to modernize and expand the production equipment for the Vehicle Transmissions and Special Gear Units businesses. Investment activities at the Rheine site centered on expanding and improving manufacturing structures. In Hanover, the expansion of the office building was begun in line with increased customer requests for qualified consulting services.

Research and development
In addition to the continued development of existing series, Renk's vehicle transmissions program started the design and development of an entirely new generation of transmission electronics to ensure that new product ranges are equipped for the future as well.

Development activities in the Slide Bearings business are focused on specific ways to increase output and on verifying these through testing. The lessons learned are included in the optimization of our proprietary configuration tool for slide bearings applications.

Development work on the high-end vessel gear units in the Special Gear Units business is responding to customer requests for new drive concepts. The focus was on implementing CODELAG technology, which combines gas turbines and electric engines as the main drives.

The Standard Gear Units business presented its newly developed T^2RECS gear unit for merchant ships to a larger industry audience for the first time at the 2012 SMM international shipping fair in Hamburg.

Outlook
Renk's individual areas of business will continue to turn in a mixed performance in 2013. Depending on individual major projects in the area of vehicle transmissions and vessel gear units, order intake is again expected to be around €500 million in 2013.

Renk's management expects revenue in 2013 to be on a level with the previous year. Increasingly difficult conditions will lead to a slight decline in operating profit. However, management anticipates that the Renk Group will once again generate a double-digit return on sales in 2013.

Others/Consolidation

€ million	2012	2011
Headcount*	359	336
of which: MAN Shared Services	85	70
of which: MAN SE	274	266
Operating profit	7	5
of which: MAN SE and MAN Shared Services	–73	–99
of which: investment in Scania (dividend)	60	59
of which: investment in Sinotruk Ltd. (equity method)	6	45
of which: consolidation	14	0

* Including subcontracted employees as of December 31.

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

At €7 million, operating profit was on a level with the previous year. The year-on-year decline in the share of net income attributable to Sinotruk, which is accounted for using the equity method, was primarily offset by the lower operating loss recorded by MAN SE and MAN Shared Services.

Financial statements of MAN SE

The annual financial statements of MAN SE prepared in accordance with the *Handelsgesetzbuch* (HGB – German Commercial Code) are presented in the following in condensed form. The complete annual financial statements are available from MAN SE or on the Internet at → www.man.eu.

Results of operations

€ million	2012	2011
Net investment income	546	702
Other earnings before taxes	–337	–150
Earnings before tax (EBT)	**209**	**552**
Income taxes	33	–180
Net income for the fiscal year	**242**	**372**
Retained profits brought forward	36	2
Transfer to (–)/withdrawal from (+) revenue reserves	–110	–
Net retained profits	**168**	**374**

Other earnings include general and administrative expenses, net interest income, writedowns of financial assets, and other income and expenses. MAN SE's earnings before tax fell by €343 million in the reporting period to €209 million. This was mainly due to lower income from investments and the write-downs of financial assets, which resulted from the difficult market environment, as well as from the higher interest expenses. Income taxes of €33 million are composed of an expense of €1 million for the reporting period (previous year: €17 million) and income of €34 million in prior-period taxes (previous year: expense of €163 million).

After transferring €110 million to revenue reserves and retained profits brought forward of €36 million, the net retained profits amounted to €168 million. At the Annual General Meeting, MAN SE's Executive and Supervisory Boards will propose utilizing the net retained profits of €168 million (previous year: €374 million) to distribute a dividend of €1.00 per share carrying dividend rights (previous year: €2.30) and to carry forward the remainder to new account.

Net assets and financial position

€ million	2012	2011
Fixed assets	5,813	5,652
Current assets	2,884	2,575
Total assets	**8,697**	**8,227**
Equity	2,293	2,389
Financial liabilities	5,980	4,931
Other liabilities and provisions	424	907
Total equity and liabilities	**8,697**	**8,227**

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 arrangements 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, 2012, MAN SE employed 274 people including subcontracted employees (previous year: 266).

Dependent Company Report

The Executive Board of MAN SE prepared the dependent company report on relationships with affiliated companies required in accordance with section 312 of the *Aktiengesetz* (AktG – German Stock Corporation Act) and issued the following concluding declaration:

"We declare that, based on the circumstances known to us at the time the transactions were executed or measures were undertaken or omitted, MAN SE received appropriate consideration for every transaction and measure listed in the report on relationships with affiliated companies, and has not been disadvantaged by the implementation or omission of any measure."

Risk Report

Risk management activities are an integral part of corporate management and business processes. In 2013, they will focus on economic and market risk

Company-wide risk management system

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 that is tailored to its business needs and quickly provides the information necessary for its management.

The MAN Group's risk management system is an integral part of its corporate management and business processes. The core elements of the system are corporate planning, including the quarterly review process, opportunity and risk management (risk management), the internal control system, and the compliance system.

One of the objectives of corporate planning is to identify and assess opportunities and risks at an early stage so that appropriate measures can be taken. The risk management system is configured at all levels of the Group to quickly provide up-to-date and relevant information on the status of significant opportunities and risks and the efficacy of the measures taken. The internal control system focuses on monitoring and managing risks in a targeted manner, particularly those with regard to the efficacy of business processes, the propriety and reliability of the financial reporting, and legal compliance. The MAN compliance system supports compliance with all laws, internal policies, and codes of conduct applicable to the Company. The focus here is on anticorruption efforts, antitrust law, and data protection. Detailed information on the compliance system can be found in the section entitled "Compliance."

Organization of the risk management and internal control system

Overall responsibility for setting up and maintaining an appropriate and focused risk early recognition system lies with MAN SE's Executive Board, which has defined the scope and focus of the risk management and internal control system based on the Company's specific requirements. In this context, the Industrial Governance management system provides for decentralized operational decision-making processes within the MAN Group. Consequently, Management of each division is responsible for ensuring that all Group companies are integrated into the risk management and internal control system. The Group policy for opportunity and risk management and the internal control system (Group policy) provides the framework for a common understanding of the risk management and internal control system throughout the Group and contains guidelines on organizational structure, processes, and reporting.

Organizational structure

The organizational structure of the risk management and internal control system is based on the MAN Group's management hierarchy. Therefore, roles and responsibilities and committees have been put in place both at Group level and in the divisions. In the MAN Group's divisions and material companies, there are coordinators for the risk management and internal control system. These ensure that the processes set out in the Group policy are implemented. They also play a part in the continuous development and improvement of the risk management system. At both division and Group level, cross-functional risk boards have been set up to act as central supervisory, management, and oversight bodies for the risk management and internal control system.

Standard risk management process

The standard risk management process comprises identification, analysis, assessment, management, monitoring, and communication phases. In this context, risks are classified as either short-term, i.e., up to one year, or as long-term, i.e., up to five 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. Risk managers in the divisions define and implement risk mitigation measures and review their efficacy. Uniformly defined risk fields allow the Group to promptly identify and actively manage any concentration of risk. In addition to risks, opportunities are also continuously identified.

The divisional risk boards assess the current risk position by discussing and comparing key risks and opportunities, as well as by monitoring measures and reviewing their effectiveness. The MAN Group's Risk Board then assesses the Group's risk position on the basis of these key risks and opportunities and resolves measures to manage and mitigate risk.

Reporting

The risk position, material control weaknesses, and measures to manage risk and rectify control weaknesses are reported in the risk boards to the divisional executive boards and the Executive Board of MAN SE on a quarterly basis. In addition, at the meetings of its Audit Committee, the Supervisory Board is regularly briefed on the MAN Group's risk position and on material weaknesses in the Group's internal control system.

Accounting-related risk management and internal control system

As a rule, the risk management system and the internal control system that forms an integral part of it also comprise the accounting-related processes as well as all risks and controls in respect of accounting. This relates to all parts that could have a material effect on the consolidated financial statements. As part of the risk management activities, identified risks are assessed in terms of their effect on the consolidated financial statements and appropriate measures are taken.

The internal controls focus on limiting risks of material misstatement in the financial reporting and risks arising from noncompliance with regulatory standards or acts of deception as well as on minimizing operational/economic risks (e.g., threats to assets as a result of unauthorized operational decisions or obligations entered into without authorization). Accounting-related controls must provide sufficient assurance that the Group accounting process is reliable and complies with IFRSs, the *Handelsgesetzbuch* (HGB – German Commercial Code), and other accounting-related rules and laws.

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, including the processes relevant for preparing the financial statements together with the necessary controls, as well as controls relating to any identified business-specific risks. The scope of the documentation is determined by those companies that are significant for the consolidated financial statements or exposed to increased risk due to qualitative characteristics. It is reviewed annually on the basis of defined criteria.

The key elements of risk management 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 principles in the accounting process that are implemented within the MAN Group's internal controls.

The effectiveness of accounting-related internal controls is assessed at least once a year, primarily during the preparation of the financial statements. Identified control weaknesses and agreed measures to rectify them are covered in the quarterly report in the Risk Board. In addition to the Corporate Audit function, the external auditors assess the accounting-related processes as part of their audit activities.

Company-level controls provide an effective control environment for the integrated process controls and are documented centrally at division level. They are assessed annually to determine whether they are appropriate and functioning effectively.

The internal 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.

Opportunities and risks

The MAN Group classifies significant opportunities and risks that may have a considerable impact on its net assets, financial position, and results of operations into five risk fields: markets, products, processes, employees, and finances.

Markets

In the medium to long term, the MAN Group sees opportunities for all divisions to achieve profitable growth in the transportation and energy markets. The underlying global economic trends will continue, such as sustained economic growth, a greater international division of labor and a resulting increase in global transportation routes and volumes, growing demand for energy, the increasing requirement for capital spending by the oil and gas industry, and a need for innovativeness due to trends in global climate policy.

Although the underlying global growth trend is expected to be positive, in the current environment of continuing uncertainty there are downside risks to global economic performance. In the short term, economic uncertainties in Europe and the slowdown in growth in the emerging economies may affect the markets relevant for the MAN Group in the form of a decline in demand or cancellations of existing orders, for example. Flexible production concepts and cost flexibility through temporary work, flextime accounts, short-time working, and the option of structural adjustments enable MAN to counter economic risks. Protectionist efforts, minimum local content requirements for the proportion of domestic production in individual countries, and changes in competitive conditions in the MAN Group's sales markets may also have an adverse effect on projected growth.

Changes in legislation, taxes, or customs duties, or in environmental regulations in individual countries may also entail risks to MAN. MAN continuously monitors and assesses the economic, political, legal, and social environment so that the resulting opportunities and risks can be promptly incorporated into corporate decisions. MAN manages risks arising from changes to environmental regulations such as the tightening of emission standards by expanding its product portfolio as appropriate, and modifying existing products or production processes.

Further information on current developments in connection with the economic situation and their effects, as well as on environmental regulations, can be found in the sections entitled "Economic environment" and "Outlook for the MAN Group," along with the information provided on the individual segments in "The Divisions in Detail" and in the section entitled "Research and Development."

Products

As a leading supplier of advanced technology, it is the MAN Group's mission to develop and launch technologically superior and highly cost-effective products that are of outstanding quality. Abandoning this mission would pose an unjustifiable risk to our market position. The rollout of new products involves both conceptual and market risks, which MAN manages through a careful strategic planning process based on an analysis of trends in the market and business environment. The resulting product plans are used to manage our extensive research and development activities. Annual research and development expenditures amount to 4 to 5% of Group revenue. The launch of efficient gas engines and turbines at MAN Diesel & Turbo and the TGX EfficientLine vehicles at MAN Truck & Bus, which are systematically designed to maximize fuel savings, clearly show that these risks can be overcome.

Products that have already been launched pose risks in relation to the product quality expected by customers. Substandard quality may result in manufacturer's guarantee, statutory warranty, and ex gratia repair costs as well as 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 (PGP) 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 has started, defined quality assurance measures within the production process ensure that manufacturing defects are promptly identified and eliminated. During use, any defects are collected, analyzed, and rectified in collaboration with the service operations.

Investigations into potential irregularities in the course of the handover of large-bore diesel engines are still ongoing. The timing of the completion of the investigations, as well as their findings, cannot currently be gauged with any certainty. Expenses arising above and beyond recognized provisions, and financial risks from official proceedings or claims under civil law cannot be ruled out. Further information can be found in **note (29)** in the "Notes to the Consolidated Financial Statements."

The MAN Group's international presence and large number of products and services create a diversified economic base that offsets the risks of dependence on key customers or individual products and markets, as well as risks arising from breaches of patents, or the unauthorized disclosure of Company-specific expertise.

Long-term customer contracts give rise to additional risks. For example, 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 cases where guarantees or guarantee obligations form an integral part of the customer contracts, there is a risk that an unjustified claim will be made. This risk is combated by formulating contracts carefully.

Processes

The MAN Group considers the continual optimization of its development, purchasing, production, sales, and administration processes to be an ongoing task. For example, it operates a preventive and continuous supplier monitoring system to identify potential delivery delays or supplier defaults at an early stage and to mitigate the effects. It also works vigorously and systematically to improve underlying processes with an eye towards optimizing working capital employed.

Particular risks arise during major projects, including contracting deficiencies, miscosting, post-contracting changes in economic and technical parameters, and poor performance on the part of subcontractors or consortium partners. 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. Major projects in the MAN Group are subject to a two-step approval process. Following a project-specific risk analysis and assessment, they require the approval of the divisional executive board. Subsequently, 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 entered in a special reporting system for critical contracts and regularly submitted to MAN SE's Executive Board.

The MAN Group's business processes are intensively supported and in some cases enabled 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 business processes or bringing them to a complete standstill. There is also the risk of unauthorized access, theft, or the destruction or other misuse of business data and information. The resulting financial damage and loss of image may affect individual MAN companies or even the entire MAN Group. In order to ensure the availability, integrity, and confidentiality of information so as to mitigate and prevent risk, MAN uses a risk-based information security management system, as well as a combination of the latest hardware and software technologies, effective IT organizational mechanisms, and a continuously enhanced IT-related internal control system. The centralization and outsourcing of IT tasks and the systematic introduction of IT service management processes in accordance with the ITIL (IT Infrastructure Library) standard for the organization of IT processes help ensure that business processes are efficiently supported. By organizing information security in accordance with the internationally recognized ISO 27001 standard, the MAN Group has improved the transparency and reliability of the IT processes and IT infrastructure significantly.

The internal control system plays a key role in all business processes, including the accounting process. It is focused on ensuring compliance with the relevant regulations and helping to reduce risks and thus protect assets.

Investigations by the European Commission and the South Korean antitrust authorities into suspected possible antitrust violations in the commercial vehicles business at MAN Truck & Bus are still ongoing. The timing of the completion of the investigations, as well as their findings, cannot currently be gauged with any certainty. Financial risks arising from the official proceedings cannot be ruled out. However, the European Commission dropped its investigations into suspected possible antitrust violations in the engines business at MAN Truck & Bus and MAN Diesel & Turbo. The UK antitrust authorities also dropped their investigations into suspected possible antitrust violations in the commercial vehicles business at MAN Truck & Bus and handed over to the European Commission for further processing in the context of the ongoing proceedings mentioned above. Further information about possible antitrust violations can be found in **note (29)** in the "Notes to the Consolidated Financial Statements."

Employees

The highly qualified specialists and managerial staff who set technological standards with MAN products and manage the business effectively and efficiently 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 promptly fill key positions to meet future requirements. In strategically important areas, targeted HR development systems are used to identify and develop highly qualified employees with management potential. Through a variety of global HR marketing activities, we have been able to recruit and retain outstanding specialists and managers. Participating in rankings helps position the MAN Group as an attractive employer generally and as a top employer in Germany and Brazil and thus gain access to 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, MAN will continue to concentrate on attracting and recruiting internationally experienced managers both within and across national borders, and on improving the intercultural skills of its specialists and managerial staff.

Finances

Because of its business activities and international nature, the MAN Group is considerably exposed to market, liquidity, and credit risk. It manages these risks using a Group-wide financial risk management system.

Market risk comprises currency, interest rate, and commodity price risk. The international nature of the MAN Group's business activities entails a significant volume of cash flows in a variety of currencies. If MAN companies carry out transactions in a currency other than their functional currency, they are exposed to currency risk. Changes in exchange rates can affect prices for goods and services. The MAN Group therefore largely hedges currency risk arising from contracts, receivables, and liabilities, and partly hedges currency risk arising from forecast transactions. Financial management activities entail interest rate risk from interest rate-sensitive assets and liabilities. The goal of interest rate risk management is to largely reduce these risks through the use of derivative financial instruments. Furthermore, 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 entail commodity price risks. These risks are managed through long-term supplier contracts, price escalation clauses in customer contracts, and targeted commodity price hedging in the banking market.

Liquidity risk describes the risk that the MAN Group will have difficulty in meeting obligations associated with financial liabilities. To ensure liquidity, cash inflows and outflows are continuously monitored and managed. Where permitted by law, financial management for the operating units is performed centrally to a large extent using a cash pooling process. For external financing purposes, the opportunities available on the financial market are tracked continuously so as to ensure the MAN Group's financial flexibility. In addition, changes in the MAN Group's liquidity are monitored using a detailed financial plan.

The MAN Group is exposed to credit risk because of its business operations and financing and leasing activities. This is the risk that a party to a contract will fail to meet its contractual obligations as a result of its own financial situation or the political environment, thereby causing a financial loss for the MAN Group. This country and counterparty risk is reduced through the careful selection of transactions and business partners, through appropriate contractual and payment terms, and through guarantees and documentary credits. In addition, a central cash management function and limit allocation system are used to distribute investments of cash funds across multiple prime-rated financial institutions.

The MAN Group is exposed to a risk of impairment affecting profit or loss if there are indications that equity-method investments or financial investments carried at cost are impaired. There is also a risk of impairment associated with financial investments that are recognized as available-for-sale financial assets.

Further information on market, liquidity, and credit risk management can be found in **note (33)** in the “Notes to the Consolidated Financial Statements.” 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. For detailed information on pensions, please refer to **note (26)** in the “Notes to the Consolidated Financial Statements.”

Executive Board’s assessment of the Group’s risk position

In comparison with the previous year, economic and market risk was considerably more significant than product risk. On the basis of the risk management system established by the MAN Group, the Executive Board has again 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 and 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 enhancement. For MAN, this means continuing to optimize its risk management and internal control system going forward and adapting it to changing conditions. Given the uncertainty surrounding economic developments in some areas, activities in 2013 will continue to focus on economic and market risk management.

Litigation/legal proceedings

Please see “Acquisitions and divestments” and the “Notes to the Consolidated Financial Statements” for information relating to litigation/legal proceedings.

Compliance

In the reporting period, MAN continuously updated and implemented the compliance program launched in July 2009 to address the issues of combating corruption, antitrust law, and data protection.

Compliance organization

MAN continued to establish its Compliance function. 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 45 staff. Twenty-four 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. Twenty-one 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 Board met a total of three times in the period under review. At these meetings, the Chief Compliance Officer informed MAN SE’s full Executive Board and the heads of other functions on the progress made in setting up the Compliance organization and the introduction of new compliance measures, and agreed additional steps. At the subgroups, the compliance officers and managers regularly provided comparable reports to the executive boards and management of the relevant entity at meetings of the compliance review boards.

The compliance champions appointed in 2011 (managers who are not full-time compliance employees but who have assumed special responsibility for compliance issues) were informed about current developments relating to MAN’s Compliance organization, compliance instruments, and related topics on a regular basis in the period under review. The compliance champions also support the Compliance organization by ensuring the compliance measures are also implemented at Group companies that do not have their own local compliance managers in place, for example.

Four internally appointed data protection coordinators ensure that personal data is protected at our companies in Germany. Additional data protection coordinators were appointed at foreign companies in the period under review to provide local support to those companies in their activities to comply with data protection rules. In total, MAN currently has data protection coordinators at more than 90 foreign companies.

Compliance risk assessment

The second Group-wide compliance risk assessment was completed in the reporting period. The aim of this measure is to identify potential compliance risks affecting the Group's objective business models. The results of the compliance risk assessment are used to determine measures to prevent compliance risks and conduct preventative compliance audits at selected Group companies (see below).

Code of Conduct and compliance policies

The MAN Group's ethical conduct guidelines and compliance requirements are described in its Code of Conduct. The provisions of the Code of Conduct are set out in greater detail in the following Compliance function policies:

- Policy on gifts, hospitality, and invitations to events
- Policy on engaging business partners
- Policy on donations and sponsorship activities
- Policy on compliance with antitrust regulations
- Policy on handling personal data
- Policy on case management and compliance investigations

Several compliance policies were reviewed and updated in the period under review.

Alongside the Code of Conduct for employees, MAN has issued a Code of Conduct for Suppliers and Business Partners that contains minimum ethical standards that MAN's suppliers and business partners undertake to observe.

Compliance training

The Compliance function continued to hold compliance awareness training around the world in the form of classroom sessions for all employees who may be exposed to compliance risks in their day-to-day work. These training sessions focus on providing basic knowledge on combating corruption and antitrust law. In the period under review, 3,865 employees around the world attended this training. The Compliance function also conducted special training sessions on antitrust law, combating corruption, and data protection for employees who are particularly exposed to risks in these areas. As part of these special training sessions, 3,635 employees received in-depth instruction. Finally, the Compliance function started rolling out an e-learning compliance program at the end of December 2012. This teaches the fundamentals of the MAN Code of Conduct and the basics of combating corruption, antitrust law, and data protection as covered in the Code. For the first time, classroom sessions on combating corruption and antitrust law were also conducted for business partners in the period under review.

Compliance Helpdesk

The Compliance function continues to operate the Compliance Helpdesk, which all employees can contact with compliance-relevant questions. The Compliance Helpdesk answered 931 compliance-related questions from employees by phone or e-mail during the reporting period.

Business Partner Approval Tool

The Business Partner Approval Tool is used to check and approve the integrity of business partners who perform sales support activities, as required by the policy on engaging business partners. As approvals are limited to two years, a renewal process was initiated for the first time in the period under review to extend the approvals granted to individual business partners. In total, over 2,355 checks were conducted using this tool in the period under review.

Continuous Controls Monitoring (CCM)

The expansion of the Continuous Controls Monitoring (CCM) electronic monitoring system continued in the period under review. The CCM system ensures that potential compliance risks and policy violations in purchasing and payment processes are detected at an early stage. CMM is now used at 33 MAN Group companies.

Mergers & acquisitions (M&A)

MAN refined the process implemented in 2011 to prevent itself from being exposed to compliance risks in connection with the acquisition or disposal of equity investments. The process involves the Compliance function providing support for MAN Group M&A projects from the start. MAN also expanded the due diligence survey that target companies are required to complete.

Reporting compliance violations

The Speak up! whistleblower portal again served to detect and prevent material risks to MAN in the reporting period. Speak up! is used to accept and analyze information relating to serious compliance violations, especially in the area of white collar crime (e.g., corruption offenses), antitrust law, and data protection. This offers MAN employees and third parties a facility for providing information about compliance violations confidentially, worldwide, and at any time. MAN does not tolerate compliance violations under any circumstances. Reports of possible violations are investigated in detail, and violations are dealt with and punished according to the penalties permitted under labor law. In addition, findings from the investigation of compliance violations are used to continuously improve the compliance system.

Compliance audits

The Compliance function conducted preventative compliance audits at selected Group companies together with the Internal Audit function for the first time in the period under review. The aim of these audits is, in particular, to review the local implementation status of the MAN compliance program, as well as employee awareness of compliance issues at the entity concerned.

Policy management

The Compliance function coordinates a central project to improve policy management in the MAN Group. The project aims to simplify and harmonize the MAN Group's policy landscape. To this end, uniform guidelines were created on the hierarchy of regulations and on preparing, implementing, announcing, and communicating policies (Group Policy MAN 0.1). The existing policies are currently being reviewed by the functions and amended in line with the new guidelines. The Compliance function is also developing a central "house of policies" database in which all policies are to be recorded. The aim of the house of policies is to create a central platform to manage all Group-wide policies, which MAN employees can use to quickly and easily search and retrieve the policies they need.

Public commitment to compliance

In addition to its existing memberships of Transparency International and the United Nations Global Compact initiative, MAN joined the Partnering Against Corruption Initiative (PACI) and the Deutsches Institut für Compliance (DICO) in the period under review. PACI is a global anticorruption initiative set up by the World Economic Forum and developed by companies for companies. It offers a platform for communicating measures designed to minimize compliance risks. DICO is an association of companies and individuals and aims to promote and develop compliance standards and qualifications. The Compliance function also continues to regularly engage in dialog with industry experts and academic researchers on current compliance issues in order to promote public debate and progress in the field of compliance.

Outlook

Customer investment behavior still impacted by low growth and economic uncertainty; revenue set to decline slightly in 2013; disproportionate drop in operating profit

Muted global growth prospects

From today's perspective, the MAN Group's management anticipates that global economic growth will be very muted in 2013. The weak overall economy will continue to have a dampening effect on MAN's key markets. This will overshadow the underlying long-term growth trends in the transportation and energy markets.

As in 2012, the high level of uncertainty stemming from the European sovereign debt crisis and the United States' future fiscal policy will continue to dominate the global economy in 2013. Further deterioration could have a sustained negative impact on the global economy.

According to its latest winter report, the *Institut für Weltwirtschaft* (IfW – Institute for the World Economy) is forecasting global GDP growth of 3.4% for 2013, as against 3.2% in 2012. The IfW is expecting slightly stronger growth of 3.9% for 2014. The main drivers for this trend are the advanced economies and, in particular, the euro zone.

The IfW expects GDP in the euro zone to again decline slightly in 2013, although the 0.2% decline will be less than in 2012 (0.5%). This forecast assumes that the uncertainty surrounding the future direction of the European sovereign debt crisis will ease. Nevertheless, fiscal policies will remain restrictive in the coming year and will have a dampening effect on the economy. In many countries, investment will grow only slowly as a result of unfavorable financing conditions. Within Europe, the divergent economic trends will continue in 2013. Growth rates in the southern European countries in particular will remain negative. Marginal growth is forecast for Central Europe. The IfW expects growth to decline from 0.7% to 0.3% in Germany.

The EU accession states remain very vulnerable to economic risks in the euro zone because they are integrated with the production chains. The IfW nevertheless expects economic growth in these countries to rise to 1.3% in 2013 (2012: 0.9%). According to the IfW's forecast, economic output in the euro zone as a whole should pick up again slightly in 2014, by 0.9%.

U.S. economic growth will depend heavily on whether a final agreement can be reached on the fiscal cliff and on raising the debt ceiling, and what any agreement looks like. Assuming that a large number of the economic stimulus measures expire and government spending cuts take effect, the IfW is only expecting growth of 1.5% (previous year: 2.2%), which should rise to 2.5% in 2014.

According to the IfW's latest forecast, the emerging economies will be held back by weak demand from the industrialized countries in 2013, among other things. Nevertheless, the IfW expects economic growth to increase in 2013. In some cases, there is a material risk that growth could decline significantly, in case of renewed tensions in the international financial markets.

The economic upturn forecast for Latin America will be boosted by favorable macroeconomic fundamentals. It is expected that the Brazilian government will continue to invest and take measures to strengthen the competitiveness of local companies. The IfW therefore expects Latin America's upwards economic trajectory to continue over the next two years with growth rates of 3.8% and 4.4%. Growth is forecast to increase again in Brazil to 3.0% in 2013 and 4.5% in 2014 (previous year: 1.0%).

In China, growth will pick up slightly as a result of the moderate recovery in the global economy. Economic growth will be boosted by higher private consumption. The IfW anticipates growth rates of 8.0% for 2013 and 7.5% for 2014 (previous year: 7.8%).

Compared with the previous year, India is expected to again see higher growth of 6.5% (previous year: 3.8%). The reforms resolved in fall 2012, which aim to promote domestic and foreign investment, should help the economy to regain speed. Growth of 7.5% is forecast for 2014.

The Russian economy is expected to grow by 3.8% and 3.5% in the next two years. It should be noted in this regard that a drop in oil prices and a further loosening in the peg between oil and gas prices may give rise to material risks for the Russian budget. The IfW anticipates an annual growth rate of around 5.5% in the southeast Asian economies in 2013 and 2014.

Commercial Vehicles: declining market trend in Europe; moderate growth in the emerging economies

The European commercial vehicles market is currently in the grip of ongoing economic weakness and uncertainty. As a result, we currently expect it to contract further in 2013 and remain more or less the same in 2014. One contributing factor will be the introduction of the Euro VI emission standard at the beginning of 2014. Shifts in demand may occur, depending on potential incentives to purchase Euro VI vehicles in Germany. Russia is likely to see slower growth in 2013 compared with the previous year before leveling off in 2014 at around the 2013 figure.

Unit sales in Brazil, MAN's most important market in Latin America, are expected to increase slightly in 2013. The market will record faster growth again in 2014. This forecast is backed by government subsidies and more favorable financing conditions for trucks. The preparations for the upcoming major sporting events and the associated infrastructure developments may also boost the market.

China, the world's largest truck market, is expected to stabilize at 2012 levels in 2013 and 2014. The extent to which the incentive programs planned by the Chinese government will shore up demand for trucks remains to be seen. The Indian market is forecast to develop positively in 2013 and 2014.

Global demand for buses in almost all regions is expected to level off above 2012 levels in 2013 and 2014, although the European market is expected to decline slightly in 2013. It is forecast to recover slightly to 2012 levels in 2014.

Power Engineering: slight upward trend in some segments

After recording an overall decline in the market in 2012, the Power Engineering business area will continue to see slow growth in 2013 and 2014.

The merchant shipbuilding market is not expected to recover in the next few years due to overcapacity, which remains high. In contrast, the market for offshore and special ships is expected to perform well.

The energy generation markets are forecast to recover slightly in 2013 and 2014 in the emerging economies, where general demand for energy remains high. The trend towards more decentralized energy supplies, both here and in the developed economies, is also likely to have a positive long-term effect on the business. The shift in power plants fueled by diesel or heavy oil towards natural gas power plants will continue.

The processing industry should continue to see positive, albeit slower growth in 2013 and 2014 in the emerging economies. Although population growth will result in sustained high demand for primary materials, price pressure will increase as a result of greater competition.

The market trend in the oil and gas industry is encouraging. Due to its comparatively low price, natural gas will lead to new developments in, among others things, energy infrastructure, transportation, petrochemicals, and production. These developments will have a positive effect on all key regions. The oil and gas industry is therefore expected to record further growth in 2013 and 2014.

The offshore wind market will initially fail to meet original expectations. However, the sector should pick up significantly as soon as the technical and financial hurdles have been overcome. In the medium term, MAN is expecting further growth in the 5 MW offshore wind gear unit segment.

Executive Board's revenue and earnings expectations

The MAN Group's management does not anticipate any significant economic recovery in 2013. There is still significant uncertainty surrounding the economic environment, particularly in light of the sovereign debt crisis in Europe. Assuming that the European sovereign debt crisis does not escalate further and the economic stimulus measures in the emerging economies take effect, MAN SE's Executive Board currently expects the following:

In the Commercial Vehicles business area, MAN expects the European commercial vehicles business to decline in 2013, particularly in the first half of the year. In Brazil, sales are expected to return to growth in 2013 following the changeover to the Euro V emission standard in 2012. It is assumed that investment will increase on the back of government incentives and in the course of the economic recovery, and that the upcoming major sporting events will have a positive impact. Revenue in the Commercial Vehicles business area will be down slightly on the prior-year figure. Amidst still strong competition and frequently stagnating markets, the return on sales is expected to be on a level with the previous year at approximately 4%.

The Power Engineering business area is expecting a decrease in revenue in 2013 following its weak order intake in fiscal 2012. The return on sales will decline as against 2012, negatively impacted by the ongoing decrease in the license business in the marine sector, fierce ongoing competition, and the billing of major plant engineering orders at below-average profitability. The Power Engineering business area is therefore expected to record a single-digit return on sales in 2013.

As a result, the MAN Group will see a slight decline in revenue and a disproportionately large drop in operating profit in 2013. The return on sales will be below the 2012 figure.

Performance in 2014 will be highly dependent on the extent to which the economy recovers in 2013 and whether the uncertainties on the financial markets ease. The MAN Group will return to profitable growth in 2014, assuming that global economic growth regains speed in 2013 and in particular that the euro zone – a key market for MAN – stabilizes. In this case, revenue in the Commercial Vehicles business area should rebound, driven in particular by growth in the Latin American commercial vehicles markets. The return on sales is expected to rise moderately. Assuming that order intake recovers in fiscal 2013, the Power Engineering business area will see strong revenue growth, primarily due to growth in the power plant business and further increases in the after-sales business. Based on these assumptions, the return on sales should return to double-digit territory. For the MAN Group, the Executive Board is anticipating robust revenue growth in 2014. The return on sales is expected to approach the range of +/–2 percentage points of the long-term 8.5% target again.

In its market assessment and resulting decisions, the Executive Board is aware that the current uncertain environment poses downside risks that could significantly influence projected growth and profitability. Management is constantly monitoring ongoing economic developments and will take measures without delay – in particular to further scale back production capacity – should this become necessary in the event of a deterioration in the economic situation.

Long-term growth strategy

Going forward, the MAN Group will continue to pursue its profitable growth strategy with a focus on transportation and energy. A key part of this strategy is international growth. MAN is systematically expanding its presence around the globe, particularly in the BRIC countries. In addition, the emerging economies in East Asia and South America offer attractive growth potential for MAN. In Africa, the power plants business has the potential to bridge the energy supply gap quickly and precisely. A second focus is on expanding after-sales operations in all business areas. Technology leadership remains a critical success factor for MAN. MAN develops innovative products and solutions that meet the needs of customers and markets. Its focus is on reducing fuel consumption and emissions, as well as generating energy efficiently, reliably, and in an environmentally friendly manner.

Measures to improve earnings initiated

MAN has already initiated a range of measures in view of the unsatisfactory earnings situation, some of which will only take effect in the medium term. The focus is on cutting costs and increasing efficiency in production, as well as in administration, sales, and development. Increasing production flexibility is allowing us to adapt to lower unit sales volumes. MAN Truck & Bus has already negotiated short-time working at two of its German locations for the first half of 2013. MAN will keep a close eye on market developments and respond appropriately if necessary, for example by cutting further shifts or production days, and possibly increasing or extending short-time working. We are reviewing planned capital expenditure. Internal workflows are being critically examined and enhanced as part of projects to boost efficiency. Here, too, the aim is to increase quality and customer satisfaction. In addition, MAN has initiated investigations into achieving structural improvements. It also sees potential in the reorganization of the procurement area, in particular by bundling procurement into a central purchasing function.

Cooperation with Volkswagen and Scania

MAN is part of a strong commercial vehicles alliance with Scania and Volkswagen Commercial Vehicles, with the aim of becoming one of the leading players in the global truck and bus markets. This alliance also allows us to leverage a large number of potential synergies. Project groups have already laid a solid foundation for this – first, methodology and data were harmonized so as to create a common procedural basis. They then conducted in-depth benchmark studies to identify differences and spotlight any resulting potential. In a third step, they defined specific cooperative measures, particularly in purchasing, research and development, and production. Individual synergy effects can be achieved relatively quickly, for example in common procurement. This is expected to take longer in research & development and production due to the high levels of complexity and the different, long product lifecycles involved. MAN will exploit all of the advantages offered by this strong commercial vehicles alliance while preserving and continuing to build on its own strengths. It will retain its brand identity and operational responsibility. The MAN Group is also contributing its extensive expertise and strong market position in the power engineering segment to the Volkswagen Group.

Capital expenditures, research and development

The MAN Group will continue to make significant capital expenditures in 2013 in order to safeguard the long-term success of the Group. In addition to necessary expenditure on replacement items, MAN will make targeted investments in modernizing its production facilities and further expanding its service and sales network across all divisions. 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 large-bore diesel engines in terms of their performance, consumption, and emission standards; on systematically integrating innovations into truck and bus models; and on developing new products. The expansion of the product range in the Power Engineering business area is putting a special emphasis on the use of natural gas as a fuel. In 2013 and 2014, the MAN Group will maintain a high level of R&D activity despite the current downturn in revenue. The goal is to maintain and expand the Group's strong technological position through research and development.

Cash flow

In view of the difficult economic situation, cash management will continue to be a particular focus going forward. Measures to reduce inventories and receivables by improving processes will be defined and monitored on an ongoing basis as part of the Group-wide working capital optimization program. The MAN Group's financing structure aims to achieve an economically useful mix of operating cash flow and external finance. MAN will continue to keep a close eye on the capital markets in 2013 and, where appropriate, take measures to safeguard its financial capacity to act and to take advantage of opportunities that arise. Current financing conditions and in particular the ongoing European debt crisis and the tranche of the MAN corporate bond issued in 2009 that matures in 2013 must also be taken into account. We will also continue to conduct local financing arrangements in emerging market countries and asset-backed financing arrangements to refinance the financial services business.

The MAN Group's net financial debt will remain more or less constant in 2013. The financing volume in the Financial Services business is expected to expand slightly. In the Industrial Business, on the other hand, MAN is aiming to reduce its net financial debt. Planned capital expenditures will be critically reviewed. Even in a phase in which revenue is temporarily declining slightly, MAN will continue to make the investments in products and structures needed to drive long-term growth.

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 2012, bearing in mind the economic environment. The proposed dividend of €1.00 per share for 2012 is therefore lower than for 2011 (€2.30 per share). The amount distributed is not fixed: the MAN Group generally aims for 30% to 60% of net income.

Employees

The number of employees in the MAN Group (including subcontracted employees) will remain roughly the same in the coming year, provided that economic factors do not make further adjustments necessary.

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 9, 2013, Volkswagen announced its intention to conclude a control and profit and loss transfer agreement with MAN SE to create an integrated commercial vehicles group.