MOODY'S INVESTORS SERVICE

Credit Opinion: MAN SE

Global Credit Research - 17 Sep 2010

Munich, Germany

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
ST Issuer Rating	P-2

Contacts

Analyst	Phone
Falk Frey/Frankfurt am Main	49.69.707.30.700
Rainer Neidnig/Frankfurt am Main	
Eric de Bodard/Paris	33.1.53.30.10.20

Key Indicators

MAN SE[1]

	6/30/2010(L)	12/31/2009	12/31/2008	12/31/2007	12/31/2006
Sales (USD Billions)	**$18.2**	**$16.8**	**$22.0**	**$19.3**	**$16.4**
EBITA Margin	**5.4%**	**4.2%**	**11.8%**	**13.2%**	**8.6%**
EBITA / Avg Assets	**4.6%**	**3.5%**	**12.0%**	**13.2%**	**8.5%**
EBIT / Interest	**2.8x**	**2.1x**	**33.1x**	**20.3x**	**9.3x**
Gross Debt / EBITDA	**2.1x**	**2.7x**	**0.2x**	**0.5x**	**1.4x**
RCF / Net Debt	**49.0%**	**21.3%**	**298.9%**	**-654.9%**	**134.5%**
FCF / Gross Debt	**50.3%**	**24.5%**	**-74.3%**	**175.8%**	**48.9%**
Gross Debt / Book Capital	**28.0%**	**30.1%**	**7.6%**	**17.7%**	**32.1%**
(Cash & Marketable Securities) / Debt	**41.4%**	**25.6%**	**17.2%**	**130.6%**	**62.6%**

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one time items. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Corporate Profile

Headquartered in Munich, Germany, MAN SE ("MAN"; rated A3/Prime-2/stable) is a diversified transport-related engineering group operating on a global scale. Its two main activities are Commercial Vehicles (including trucks and buses) as well as Power Engineering (Diesel Engines, Turbo Machinery, and Renk (76% stake)). In addition, the group offers financial services for MAN Nutzfahrzeuge division. Commercial vehicles is the largest division accounting for 72% of group sales and 45% of group operating profit in H1 2010. In H1 2010 the group generated revenues of EUR 6,734 million (EUR 12,026 million in FY 2009) and reported an operating profit of EUR 404 million (EUR 504 million).

Rating Rationale

MAN's A3 rating is supported by (i) the solid market position of its commercial vehicle and power engineering divisions; (ii) the group's prudent financial policies and adequacy of its liquidity profile; as well as (iii) its overall strong credit metrics exhibited in recent years. As a result of these strengths the group was able to moderate the impact of the severe downturn in commercial vehicles markets on its operating performance and credit metrics. During 2009 revenues declined by approx. 20% from EUR15 billion to EUR12 billion. Despite the magnitude of this contraction the group generated an operating margin of 3.0%, EBIT/interest of 2.1x, debt/EBITDA of 2.7x and a positive free cash flow of around EUR560 million.

However, the rating is constrained by (i) MAN's exposure to cyclical industries, which require timely adjustments of its cost structure and production levels to protect profit margins against significant swings in demand; (ii) the group's limited scale and geographical diversification relative to peers, though Moody's acknowledges that the acquisition of VW Trucks & Buses Brazil and its 25%+1 stake in Sinotruk helped to

broaden its geographical spread and make the group well positioned to benefit from strong demand in these countries.

DETAILED RATING CONSIDERATIONS

PRODUCT DIVERSIFICATION MITIGATES VULNERABILITY TO CYCLICAL DOWNTURNS

Last year's protracted downturn in the truck industry caused revenues at MAN's Commercial Vehicle division to fall by 40% and resulted in an operating loss of approximately EUR90 million. However, the impact on the group's overall operating performance was mitigated by the relative resilience of its Power Engineering division, which is subject to different demand cycles, as well as buoyant truck demand from Brazil.

While the commercial vehicle market remains MAN's core market (around 70% of revenues), the group began to reduce its exposure to the volatility of European demand by broadening its geographical spread with investments in Brazil and China. In China MAN seeks to launch a new truck brand this year together with its partner SINOTRUK.

Despite the beneficial impact of increasing diversification by product and geography one of the key risk factors in MAN's credit profile remains its exposure to cyclical industries.

RECOVERY IN TRUCK DEMAND GAINED MOMENTUM IN H1 2010 BUT TREND VARIES BY REGIONS

Global demand for commercial vehicles began to recover in the current year supported by strong economic growth in Asia and Brazil as well as a modest recovery in Europe. MAN benefited in particular from its competitive position in Brazil following the acquisition of VW Truck & Bus Brazil but its European operations also returned to profitability in the second quarter of this year.

Operating performance at its Power Engineering division remained strong (Operating income of EUR245 million in H1 2010), mainly a function of a solid order backlog. However, demand for marine systems and shipping engines remains relatively weak as freight volumes in the shipping industry pick up more slowly. In addition, its power plants segment reported an operating loss of EUR85 million in Q2 2010. According to the group, profitability at its power plant division suffered from significant start up costs as well as certain non-profitable contracts.

Continued strong demand from Brazil and improving demand conditions in Europe should help to mitigate a possible slowdown of its power engineering unit, in Moody's view. In addition, the group continues to benefit from a solid order backlog of EUR7.7 billion per June 30, 2010.

HIGHER DEMAND AND EFFORTS TO REDUCE COSTS SHOULD SUPPORT RECOVERY IN OPERATING PERFORMANCE

An expected increase in truck unit sales and benefits of last year's cost reduction initiatives should facilitate modest improvements in the group's financial metrics (EBITA margin 4.2%, RCF/net debt 21.3%, EBIT/interest expense 2.1x in 2009) in the current year. Nonetheless, a slowdown in its Power Engineering division or weaker truck demand in Europe and Brazil than currently anticipated could temper the pace of financial improvements compared to 2009. In addition, low capacity utilization rates and weak used truck prices could also pressure profitability.

FINANCIAL POLICY

One strength of MAN's rating is the group's strong balance sheet, the adequacy of its liquidity profile and positive free cash flow generation over past years. Despite the EUR 1.3 billion acquisition of VW Truck & Bus Brazil in 2009 and an accompanied increase in debt, the group's capital structure remains moderately leveraged evidenced by a debt/book Capital ratio of 28% per June 30, 2010. Debt/EBITDA deteriorated to 2.2x per June 30, 2010 from 0.2x in 2008 reflecting also the decline in profitability during last year's downturn.

Moody's expects MAN to generate modest levels of positive FCF in 2010 (EUR469 million in H1 2010) on the back of improving funds from operations despite an anticipated increase in working capital needs and capital expenditures.

We anticipate the group to continue to employ a prudent financial policy going forward and financial flexibility consistent with the A3 rating.

Liquidity Profile

Maintaining adequate liquidity is an essential feature of a group's ability to sustain its rating during a downturn. In Moody's stress case scenario, where access to debt markets is assumed to be closed for 12 months and maturing finance assets are replaced, the group's available key sources of liquidity consisting of EUR 861 million cash on balance sheet, EUR 158 million in marketable securities per June 30, 2010 as well as its unused committed credit facility of EUR 1.5 billion and various bilateral credit lines fully cover the potential needs arising from debt maturities, capital expenditures, working capital, day to day needs and dividend payments.

Moody's notes that the group's EUR 1.5 billion committed credit facility matures during December 2011, however, we anticipate that the facility will be renewed well ahead of maturity. Along with maintaining a prudent financial policy, we expect that MAN will remain committed to preserving the adequacy of its liquidity profile.

Rating Outlook

The stable outlook reflects Moody's view that MAN has the operating and financial strength to support the A3 rating despite its exposure to cyclical industries. The benefits of the group's competitive position, last year's cost reduction initiatives and improving demand for commercial vehicles should support a recovery of MAN's operating metrics despite an expected modest recovery in Europe and a possible slowdown in its Power Engineering division. In addition, we anticipate MAN to maintain a prudent liquidity profile as well as a modestly leveraged capital structure going forward.

What Could Change the Rating - Down

MAN's rating could come under pressure in case of (i) the group's failure to achieve an average EBIT margin of around 6.0% through a business cycle and generate free cash flows over such period as well as (ii) increased debt/EBITDA to above 2.0x.

What Could Change the Rating - Up

A rating upgrade over the short to medium term is unlikely, but the outlook could be changed to positive in case the group should (i) achieve an average EBIT margin above 7.5% through the cycle, (ii) maintain leverage at levels of no more than 1.5x debt/EBITDA at the low point of the

cycle and (iii) further profitably diversify its business by geography.

Other Considerations

Rating Factors (Methodology)

The grid-implied rating from the global heavy manufacturing methodology grid indicates an A1 rating based on historical 3-year averages for the period 2007-2009, benefiting from the group's strong performance prior to 2009.

Rating Factors

MAN SE

Heavy Manufacturing	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Scale and Market Position (30.0%) [1][2]							
a) Sales (USD Billions)			$16.8				
b) Market Structure and Issuer's Position			X				
Factor 2: Resilience to Market Volatility (30.0%) [1][2]							
a) Five-Year Sales Volatility			11.1%				
b) Industry Diversification (No. of segments with = 10% of sales)				X			
c) Vulnerability to Cyclicality		X					
Factor 3: Profitability (10.0%) [1][2]							
a) EBITA Margin (3 Year Avg)			10.0%				
b) EBITA / Avg Assets (3 Year Avg)				9.6%			
Factor 4: Leverage and Financial Policy (30.0%) [1][2]							
a) EBIT / Interest (3 Year Avg)	11.8x						
b) Gross Debt / EBITDA (3 Year Avg)	0.8x						
c) RCF / Net Debt (3 Year Avg)	218.1%						
d) FCF / Gross Debt (3 Year Avg)	57.4%						
e) Gross Debt / Book Capital (3 Year Avg)		19.4%					
f) (Cash & Marketable Securities) / Debt (3 Year Avg)		55.5%					
Rating:							
a) Indicated Rating from Grid			A1				
b) Actual Rating Assigned			A3				

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one time items. [2] As of FY 2009; Source: Moody's Financial Metrics

© 2010 Moody’s Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR

MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.