

Tognum AG

Report* of the Executive Board to the Annual General Meeting held on 5 June 2012

Joachim Coers

Chairman of the Executive Board and CEO of Tognum AG

Only the spoken German word shall be valid.*

* This version of the report is a translation of the German original manuscript and has been prepared for the convenience of English-speaking readers only. This means that it is neither in general nor legally binding and that, for the purposes of interpretation, only the spoken German word shall be valid.

UNDER EMBARGO until 5 June 2012, with the beginning of the report of the Executive Board to the Annual General Meeting

My very dear Shareholders and Shareholder Representatives,
dear Guests and Media Representatives,
dear Colleagues,

On behalf of the Executive Board, may I wish you a warm welcome here today. Once again, we can look back at a successful financial year at Tognum. At the previous Annual General Meeting, my predecessor, Volker Heuer, gave a detailed presentation of our proven growth strategy and promised that we would continue to pursue this strategy with unabated energy. And this is precisely what we have done. I will take a closer look at last year's milestones shortly.

As you are certainly aware, there has been a significant change in our shareholder structure since last year's Annual General Meeting. Daimler and Rolls-Royce had increased their takeover offer shortly after the Annual General Meeting to 26 euros, thus creating additional value for shareholders by paying a premium of 41 per cent on the last unaffected price of the Tognum share. Through the joint venture, Engine Holding, our new majority shareholders now hold around 99 per cent of the shares in Tognum. Their commitment is an acknowledgement of what we can achieve and the excellence of our products and services.

That we share a common desire for continuity is emphasised by the fact that each of the partners remains committed to the cornerstone paper that was signed at the beginning of March last year, in which we specified cornerstones for the continuation of our growth strategy during the takeover negotiations. At the end of 2011, the Chairman of our Supervisory Board, Andreas Renschler, reaffirmed the decisions that had been taken by adding his signature to this cornerstone paper together with the Chairman of the Works Council, Karl-Heinz Wulle, as the employees' representative.

Review of the 2011 financial year

Let us now take a look at the financial year just ended. It shows that Tognum is on the right course and has been able to further expand its market position. As a result of a strong finish at the end of the year, we slightly exceeded the forecasts we had made in autumn 2011 and saw a significant increase in our consolidated net income. We reported increases in order intake and in revenues of 13.0 and 15.9 per cent respectively, and our adjusted EBIT was up 42.6 per cent to 345.2 million euros, which represents an adjusted return on sales of 11.6 per cent.

This pleasing earnings performance has enabled Tognum to further strengthen its financing structure. Despite investing heavily in the future, we had managed to reduce our net financial debt by the end of the year to 5.0 million euros. With a slight improvement in the equity ratio to 28.1 per cent our equity base is on a solid level.

PERFORMANCE OF THE SEGMENTS

Our broadly diversified and balanced business model with its wide range of applications demonstrated its effectiveness once again in 2011, with all three reporting segments benefiting from the positive performance of their respective markets.

Our “**Engines**” segment includes the development, manufacture and sales of diesel engines for mobile drive systems and complete propulsion systems for marine, defence and industrial applications. Revenues in this segment were up 8.5 per cent to 1,995.1 million euros. Business in propulsion systems for yachts and commercial vessels in particular was positive, and in the case of industrial applications, revenues generated in the rail and mining sectors also improved. In oil and gas applications, the increase in raw material prices resulted in our customers investing more, which led to a significant above-average growth in revenues. Revenues in our defence business remained stable as expected, since new projects were not yet scheduled for completion. The adjusted return on sales in the “Engines” segment improved significantly once again, increasing to 15 per cent.

In the “**Onsite Energy & Components**” segment, we reported an increase in revenues of 29.8 per cent to 990.5 million euros. This segment covers our business in distributed energy systems based on diesel engines, gas engines and gas turbines. In all three applications, both our systems business and our supply business to OEM customers performed positively. Strong growth was also reported in sales of L'Orange brand injection systems in our component business. The adjusted return on sales in the “Onsite Energy & Components” segment also increased significantly to 7.7 per cent.

Our “**Distribution**” segment comprises the Group-owned sales companies, primarily in the Europe and Asia/Pacific regions at the moment. Growth in this segment was very strong, with an increase in revenues of 58.7 per cent to 504.0 million euros. The adjusted return on sales amounted to 5.7 per cent.

INDIVIDUAL FINANCIAL STATEMENTS OF TOGNUM AG

So much for the Group figures. If you would like more details on that and on the explanatory reports, may I refer you to the Annual Report.

Of prime relevance for the resolutions to be taken today is the business performance of Tognum AG. The individual financial statements are available as a separate report and reveal a net profit for the year of 186.1 million euros. Taking into account the profit carried forward from the previous year and the allocation to profit reserves, then this results in accumulated profits of 192.2 million euros.

DIVIDEND

Once again, it is our intention this year to continue to implement the dividend policy we have pursued since our IPO. At that time, we had promised to distribute between 30 and 50 per cent of the Group's adjusted net income. On this basis, we propose to you today in short a dividend of 75 euro cents per share. This represents a payment of 98.5 million euros.

Results for the first quarter

At the end of the first quarter, our business performance in 2012 to date is running absolutely according to plan. The order intake in the first three months of the year was solid at 771.5 million euros, revenues were up 3.6 per cent to 685.3 million euros. The adjusted EBIT was down 5.8 per cent to 67.7 million euros – this was due primarily to a scheduled increase in our R&D expenditure. This results in an adjusted EBIT margin of 9.9 per cent.

Outlook for 2012

This performance confirms our expectations for the current financial year. Generally speaking, it can be assumed that the economy is unlikely to perform as positively as it did in 2011. In view of the considerable uncertainty that continues to prevail on the capital and commodities markets, we will have to expect fluctuations in demand in the course of the year. We nevertheless continue to strive for profitable growth. We expect that the Group can still achieve a single-digit percentage growth in revenues and an adjusted return on sales of over ten per cent.

Our corporate strategy

Tognum's corporate strategy today is very strong and is supported on a solid foundation. It rests on four key pillars – firstly, the maintenance of our innovation and product leadership; secondly, the broadening of our business and customer portfolio; thirdly, the development and extension of our range of systems and services; and fourthly, on profitable growth and a continuous increase in corporate value. To ensure that we can build further on this founda-

tion, our focus is on five strategic growth initiatives and we endeavour at all times to continually improve our business excellence.

FIVE GROWTH INITIATIVES

You are already familiar with our five long-term growth initiatives. We have presented them in detail over the years in the Annual Report and at the Annual General Meeting. For this reason, I will only mention a few selected milestones from the recent past.

1. Growth through distributed energy systems (Onsite Energy)

The first pillar of our growth strategy is our Onsite Energy business unit, which covers distributed energy systems. Within the company, we tend to use the term “Power”. Growth in this area is driven by the continuous increase in the demand for energy and the need for a safe and reliable energy supply. Tognum provides solutions in such cases with products for generating emergency standby, peak and base load power. With our entry into Aggretech AG, which we completed in April of this year, we are moving ahead with the expansion of our business in this field. Onsite energy solutions have been produced until now at the following facilities: engines are manufactured in Friedrichshafen and Überlingen at Lake Constance, Aiken (USA) and Suzhou (China), and gas-based gensets in Augsburg. In Mankato (USA), we produce diesel-based systems in series and customer-specific power generation solutions. Through Aggretech, in future to be known as MTU Onsite Energy Systems GmbH, the site in Ruhstorf near Passau will now be added, where diesel and gas-based gensets for our series systems business and for customer-specific solutions will be manufactured.

2. Expansion of our systems business in off-highway drive systems

In the case of drive systems, the second growth initiative, we focus on our series and project-related systems business. We see future potential in this area primarily in innovative, energy-efficient hybrid systems. For the hybrid underfloor drive system, which is currently undergoing trials in conjunction with Deutsche Bahn in a local transport railcar, we received the Innovation Award from the German trade magazine for private railways, “Privatbahn Magazin” last year in the “Environment and Rail Technology” category.

3. Increase in after sales activities

Our after sales and customer support business is the third pillar of our growth strategy. In this area, we are constantly working to improve our warranty support services, spare parts and our reliability in terms of deliveries. Growth goes hand in hand with process optimisation and business excellence, because ultimately, the most important thing is to ensure that the customer is satisfied with our products and solutions, wishes to remain a customer and will come to us again. For this reason, both the objective product quality and the customer’s subjective positive business experience are of supreme importance for us. Shorter response times with a binding commitment and more intensive dialogue – in the form of regular customer surveys, for example – will enable us to make progress in this area.

4. Continuing development of our product portfolio

The continuing development of our product portfolio is the fourth pillar for growth. Our R&D activities at 215 million euros have set a new record. Almost one in every ten employees now works in this area, which is critical to our success.

At numerous trade fairs, exhibitions and conferences last year, we also presented new engines and systems that will enable us to continue to position ourselves at the forefront of technical progress. Generally speaking, the main focus is on compliance with new emission standards, reducing life-cycle costs and energy consumption levels for the customer, and optimising maintenance intervals and power output even further. One particular success from last year was the launch of the new Series 1000, 1100, 1300 and 1500 engines. They are based on Daimler technology and are designed for off-highway applications in the construction, industrial and agricultural sectors for which the emission regulations will apply as from 2014.

5. Decentralisation through regional expansion

The fifth and last growth initiative relates to our regional expansion, where we are making excellent progress. With the expansion of global value added, we are aware of the fact that we now generate around 85 per cent of our revenues outside Germany.

In March of this year, we announced that we were erecting a new plant in Poland, the production output of which would primarily include crankcases, cylinder heads and large-volume parts for Tognum's MTU brand Series 2000 and 4000 engines from the second half of next year. To this end, we are investing over 90 million euros.

A regional focus of our investments in the last few years has been the USA, where we have set up a new assembly and manufacturing plant, a modern spare parts warehouse and a training centre to ensure that we are now state-of-the-art. We intend to further expand the MTU engine plant in Aiken and will be investing approximately a further 40 million US dollars in the next two years. By the end of the year, for example, two new R&D buildings are to be erected, which will house new engine test equipment.

We are also investing heavily in our Friedrichshafen location. The material management centre in Kluftern, for example, which will enable us to further optimise our production logistics system, is about to be inaugurated.

CONTINUOUS IMPROVEMENT OF BUSINESS EXCELLENCE

My dear Ladies and Gentlemen,

Tognum – as is also the case with other companies – is going through a continuous process of change. This is not simply about optimising processes, increasing productivity and efficiency and reducing costs. What is more important is that we develop into a learning organisation as described in the management model of the European Foundation for Excellence (EFQM). We have made a start in our subsidiary company L'Orange. For some 18 months now, we have encouraged our colleagues there to establish the management model firmly in their organisation. And with considerable success – in the first external assessment that was completed in December 2011, we were given an excellent rating. As a result of the assessment, we have also received valuable suggestions for improvements.

Another learning process for us last year resulted from a rather unpleasant experience. Allegations had been received relating to compliance issues that involved our sales company in Asia. We acted immediately and authorised independent external experts to carry out an in-depth examination of the business transactions that had taken place in the course of the last ten years. The results revealed violations involving conspicuous payments amounting to a total of around 160,000 euros that had been made to sales partners between 2001 and 2009 alone and were related to customer training courses. Other suspicions of corruption were not substantiated. We have subsequently introduced a series of improvements. In the sales organisation, for example, we have created a new division responsible for governmental project business, which covers business transactions with members of the armed forces and procurement agencies. In November, we also authorised external experts to carry out a preventative risk analysis of the global sales organisation. And finally, we are setting up a new staff department that will help line managers to design and implement compliance-proof processes in the areas for which they are responsible. The department will also serve as the central contact point for executives and other employees who are uncertain as to the right way of dealing with a business partner, for example. There is one thing that is absolutely clear for us: in cases of fraud, bribery or corruption, we cannot and will not tolerate any grey areas.

Employee excellence

The continuous improvement process I mentioned earlier, in terms of its implementation, requires above all the broad backing of the workforce. The successes we have achieved in the last few years have shown that the workforce has also supported and has helped define the processes of change. For their efforts and their willingness to become involved, our entire workforce of more than 10,000 people deserves our sincere thanks and special recognition.

Acquiring specialists with global business skills is a challenge. To continually support them in their professional and personal development and to ensure they remain loyal to our company in the long term is our commitment. At Tognum, we assume a high degree of social responsibility for the members of our workforce and their families. Our company health management system is considered to be exemplary, as was demonstrated by the recognition MTU Onsite Energy in Augsburg received last year, for example, as one of the "fittest com-

panies in Bavaria". At the beginning of 2013, as the first local employer, we will open a company child-care centre in Friedrichshafen, which is designed to help employees with small children to achieve a healthy work-life balance. All this makes us an attractive employer. And it should not come as a surprise, therefore, to hear that this year we received the "Top Employer in Germany" seal of approval and the "Top Employer for Engineers" award, for the third and fourth time in succession respectively, from the independent CRF Institute.

Finally, I would like to express my thanks to Volker Heuer. The close and trusting working relationship I enjoyed with him for many years ensured that I also enjoyed a smooth transition to my new role as Chairman and CEO. With Dr. Ulrich Dohle, I have an experienced engineer at my side as Deputy Chairman, a man who has long been the mainstay of technology in person at Tognum. Dieter Royal as our CFO also represents continuity: he is thoroughly familiar with Tognum's financial matters, and has been for years. Our thanks also go to my colleagues who have left the Executive Board – Christof von Branconi and Peter Kneipp. Effective 1 July, we have acquired a new member of the Executive Board with responsibility for sales – Dr. Michael Haidinger – who is already acquainted with the company through his position as a member of the Supervisory Board and, as the former President of Rolls-Royce Deutschland, is familiar with complex products and demanding customers.

Tognum remains in a state of flux and I am convinced that we are moving in the right direction. There is absolutely no doubt that our strategic majority shareholders Daimler and Rolls-Royce can assist us on the road that points to growth. Our deliberations on our future operational teamwork are characterised by mutual appreciation and respect and are very constructive. We will continue to pursue our proven strategy and use every opportunity that results from our partnership.

Disclaimer regarding forward-looking statements et al.:

This report also contains forward-looking statements based on assumptions, forecasts and estimates of Tognum's Executive Board of Management. Although we assume that our assumptions, forecasts and estimates on which we have based these forward-looking statements are realistic, we cannot guarantee that these assumptions, forecasts and estimates will in the future prove to be correct. The assumptions, forecasts and estimates, by their nature, may harbour risks and uncertainties that may cause the actual figures to differ considerably from the forward-looking statements. Factors that may cause such discrepancies include, among other things, changes in the economic and business environment, variations in exchange and interest rates, the introduction of competing products, lack of acceptance for new products or services and changes in corporate strategy. Tognum does not undertake any obligation to update, to review or to confirm the forward-looking statements or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this announcement.