

Report of the Supervisory Board



Rolf Eckrodt, Chairman of the Supervisory Board at Tognum AG

The supervisory board of Tognum AG diligently carried out the tasks incumbent upon it by law, under the terms of the articles of association, and the bylaw during the 2008 financial year. We regularly advised the executive board concerning the management, control and new focus of the company, and supervised the conduct of its affairs. We were directly involved in all fundamental decisions affecting the company at an early stage. The chairman of the executive board and his colleagues on the board keep us regularly informed, both during and outside meetings of the supervisory board. Key topics included important aspects of corporate planning and strategic development. The information also related to the Group's business situation, the development of key companies within the Group, and identifiable opportunities and risks for Tognum AG. We received our information promptly and comprehensively, both verbally and in writing.

In focus 2008: New organisational structure and first annual shareholders' meeting.

Despite the financial crisis, 2008 was an extremely successful financial year from an economic and strategic point of view. The focus of strategic decisions centred on Tognum AG's new organisational structure, which included the integration of the new MTU Onsite Energy brand for decentralised power generation into the organisation. We held intensive discussions with the executive board on the details of the new structure in advance. Other key topics included medium-term operational Group planning as well as specific strategic and personnel issues. Any deviations in business performance from the actual levels expected and the previous operational plan were explained in detail by the executive board. We subsequently examined such deviations with the aid of the documents made available to us. We also held in-depth discussions on business transactions of particular importance for the company in plenary sessions on the basis of reports received from the executive board. A detailed discussion and planning was also required for Tognum AG's first annual shareholders' meeting following the IPO, on 10 June 2008.

Regular contact with the executive board. Insofar as is required by the articles of association and the law, executive board reports and resolution drafts were given a thorough examination and our consent was given only after in-depth consultation. In addition to the intensive work carried out in the plenary sessions and in the supervisory board committees, both the chairman of the supervisory board and the other supervisory board members maintained regular contact with the executive board. This ensured that the executive board chairman and his deputy informed them of current business developments and significant business transactions at an early stage. In addition, the chairman of the supervisory board discussed the prospects and the future strategic focus of the individual business units in separate meetings with the executive board members.

Conflicts of interest. In the period under review, no conflicts of interest occurred in connection with executive board or supervisory board members which are to be disclosed immediately to the supervisory board and for which the annual shareholders' meeting is to be informed.

Eight meetings of the supervisory board. In the 2008 financial year, the supervisory board of Tognum AG held eight meetings. All members of the supervisory board were either present at the meetings or had been excused. Members who were not present at the meetings voted in absentia.

The first ordinary supervisory board meeting of Tognum AG was held on 27 February 2008, in this exceptional case by way of a telephone conference. Items on the agenda included the figures for the Tognum Group for the 2007 financial year and a discussion on a possible submission to the annual shareholders' meeting to pass a resolution authorising the executive board to repurchase own shares.

On 2 April 2008, another ordinary meeting was held at which we approved the profit transfer agreements that had been concluded between MTU Friedrichshafen GmbH and SKL Motor GmbH, Magdeburg and between MTU Friedrichshafen GmbH and MTU Onsite Energy GmbH (formerly MDE Dezentrale Energiesysteme GmbH), Augsburg. We also discussed the reorganisation of production, the approval of the annual financial statements of Tognum AG and the Group, and the appropriation of profits. Other topics discussed were the report of the supervisory board for the 2007 financial year and the corporate governance report, including the remuneration report. We approved of the invitation to the ordinary shareholders' meeting and discussed resolution proposals for the individual items on the agenda prepared for the annual shareholders' meeting. We also elected the employee representative and Group works council chairman Patrick Müller to the position of deputy chairman of the supervisory board.

In the ordinary meeting held on 7 May 2008, the report of the executive board for the first quarter of 2008 and its general assessment of the market were discussed. The executive board also submitted status reports on the new Series 1600, including a startup scenario for the planned series logistics centre in Salem. We discussed the new corporate structure, the investment requirement for the proposed change to the utilisation concept and the corresponding infrastructure for an industrial plant building, in addition to the Long-Term Incentive (LTIC) programme for senior executives.

During the annual shareholders' meeting of Tognum AG held on 10 June 2008, an extraordinary meeting of the supervisory board was held to discuss a counter-motion proposed by a shareholder. The term of office of the previous shareholders' representatives on the supervisory board expired at the close of the annual shareholders' meeting of Tognum AG on 10 June 2008. After the new appointment of supervisory board members on the shareholders' side by the annual shareholders' meeting, the supervisory board in its constituent meeting at the end of the annual shareholders' meeting on 10 June 2008 again elected Rolf Eckrodt to the position of supervisory board chairman. Also elected were the members of the mediation committee, the executive committee, the audit committee and the nominations committee.

In the ordinary meeting held on 4 August 2008, the executive board first of all reported on business developments in the second quarter of 2008 and presented an outlook for 2008 as a whole. It then provided information on strategic issues and the joint venture between Tognum AG and HUG Engineering, the purpose of which is to develop exhaust aftertreatment systems for engines in the upper power range. Other topics included the investment in a new office building and the concept for the celebration of MTU's 100th anniversary. The supervisory board appointed Dr. Ulrich Dohle with effect from 1 May 2009 as successor to Dr. Gerd-Michael Wolters, who retires from the executive board on 30 April 2009.

The next ordinary meeting was held on 5 November 2008. We studied the report for the third quarter of 2008 and current market developments, and discussed the reorganisation of production in the United States, in addition to the product strategy in the medium and upper power ranges. Another item for discussion was the extension of the Long-Term Incentive (LTIC) programme for senior Group executives in 2009. The possibility of setting up a share repurchase programme was also discussed. In connection with the 2008 declaration of compliance, we also discussed ways of dealing with the recommendations and suggestions in the German Corporate Governance Code.

The final ordinary meeting of the supervisory board in 2008 was held on 11 December. The meeting focused on operational planning for 2009 and the strategies for the Near East and Latin America.

Compliance with the German Corporate Governance Code. The executive board and supervisory board, in their meetings held on 30 October 2008 (executive board) and 5 November 2008 (supervisory board), discussed and issued the declaration of compliance in accordance with Article 161 AktG (German Stock Corporation Law). The statement has since been placed on the Group's website and is thus available for download by our shareholders at any time. The text of the declaration of compliance and other details are included in the corporate governance report on pages 24-25 of the annual report.

Committees support the supervisory board. To be in a position to perform its duties effectively, the supervisory board has set up four committees: the executive committee, the mediation committee, the audit committee, and the nominations committee. The committees prepare the supervisory board resolutions and other items to be dealt with in the plenary sessions. Where permitted by law, the supervisory board has delegated decision-making authority in individual cases to the committees. At the supervisory board meetings, the committee chairmen reported regularly and comprehensively on the discussions and outcome of the committee meetings.

Executive committee. The duties of the executive committee include the preparation of the supervisory board meetings. It is also responsible for the financial statements and for changes to or the termination of employment contracts with executive board members. In the case of specific decisions, for which the executive board requires the supervisory board's approval, the executive committee decides whether approval is to be granted, unless the supervisory board's plenary session takes this decision itself. The supervisory board has included an approval requirement to this effect in the executive board's bylaws for business transactions and projects of particular importance; in the year under review, use was made of this approval requirement for key strategic and investment projects, specifically those with a value of over 10 million euros. The executive committee can also agree to the use of authorised capital for an increase in share capital or the exclusion of subscription rights on behalf of the supervisory board. The executive committee consists of the chairman Rolf Eckrodt, his deputy Patrick Müller, Sune Karlsson and Lilo Rademacher.

The executive committee held five meetings in the 2008 financial year. In the periods between the meetings, the chairman discussed projects of particular importance for the Group with the executive committee members. In its deliberations, the executive committee dealt with short and medium-term personnel planning issues and the successor to Dr. Gerd-Michael Wolters. The contracts of the members of the executive board, including their variable remuneration and the corresponding performance agreements, were also topics addressed during committee meetings, as was the implementation of the German corporate governance code, collaboration between members of the supervisory board and their remuneration. Details of the remuneration structure are presented in the remuneration report on page 16-21 of the annual report.

Mediation committee. The mediation committee performs the tasks described in Article 27 (3) MitbestG (Co-determination Act). It consists of the following members: Rolf Eckrodt (chairman), Patrick Müller (deputy chairman), Sune Karlsson and Lilo Rademacher. The mediation committee was convened on one occasion only in 2008, to elect the committee's deputy chairman.

Audit committee. The audit committee prepares the supervisory board's decision to approve the financial statements. It performs an ex ante examination of the financial statements, the management report, the consolidated financial statements, the Group management report and the proposal for the appropriation of profits. The committee also examines the quarterly and half-yearly reports before they are presented to the supervisory board. The audit committee deals in particular with matters relating to accounting and risk management. It monitors the independence of the auditor, specifies the key points of the audit and agrees on the auditor's fee. The audit committee consists of Dr. Edgar Krökel (chairman), Heinz Brechtel (deputy chairman), Sune Karlsson and Patrick Müller. The audit committee met five times in the period under review.

On 4 March 2008, before submitting its proposal for the choice of auditors to the annual shareholders' meeting, the audit committee, in accordance with the recommendations of the corporate governance code, obtained confirmation from the auditors being considered – PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft – of its independence. In accordance with the proposal, the annual shareholders' meeting on 10 June 2008 appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, to audit the financial statements for the 2008 financial year.

The mandate to conduct the audit was issued on 20 June 2008. It was agreed with the auditors that they would notify the chairman of the supervisory board without delay of any grounds for disqualification or partiality of the auditors arising during the audit for the 2008 financial year. It was also agreed that the auditors would immediately report all matters and events of importance for the duties of the supervisory board arising during the audit. In the event that the auditors identified facts that contradicted the declaration of compliance with the corporate governance code issued by the executive board and supervisory board in accordance with Article 161 AktG, they were required to notify the supervisory board immediately and include a note in the audit report. The auditors were instructed that the key areas of the audit would be impairment of assets (IAS 36), business combinations (IFRS 3) and the valuation of derivatives (IAS 39).

In the 2008 year under review, the audit committee placed particular emphasis on the following areas:

- » Risk management system and process;
- » Risk reports;
- » Findings arising from the current audit;
- » Compliance;
- » New corporate structure.

In a separate committee meeting, issues relating to the publication of financial statements and corporate governance were dealt with in detail.

In its meetings, the audit committee discussed the reports to be published and examined risk management and potential individual risks in detail.

Nominations committee. The nominations committee held one meeting in 2008 to discuss the issue of successors to Marcus Brennecke and Udo Philipp, who had resigned as members of the supervisory board and retired from the supervisory board on 25 June 2008. The nominations committee currently consists of Rolf Eckrodt (chairman), Sune Karlsson and Andreas Renschler.

Annual and consolidated financial statements for 2008. On 20 February 2009, the executive board prepared the individual financial statements of Tognum AG in accordance with HGB (German Commercial Code) and the consolidated financial statements in accordance with IFRS for the Tognum Group. The financial statements, together with the management reports, were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, who subsequently issued an unqualified audit certificate.

The audit reports were presented to all supervisory board members in good time, including the financial statements prepared in accordance with HGB and IFRS, notes and management reports, and the executive board's proposal for the appropriation of profits. The audit committee examined the documents in the committee meetings held on 25 February 2009 and on 23 March 2009 and discussed their findings in detail. In its meeting on 24 March 2009, the supervisory board held final discussions on the subject. The auditors were present at the committee and board meetings to discuss the annual financial statements and the consolidated statements. They reported on the key results and remained available to the audit committee and the supervisory board for further information.

After completing our own examination of the annual and consolidated financial statements, the management report and the Group management report, we have come to the conclusion that there is no reason for any objections to them or to the audit reports presented by the auditors. In particular, we share the executive board's assessment expressed in the management reports with regard to the company's strategy as a foundation for future growth, the outlook for 2009, and the dividend policy. For this reason, in our meeting held on 24 March 2009, we accepted the audit committee's recommendation: We subsequently approved the annual financial statements of Tognum AG 20 February 2009 prepared by the executive board in accordance with HGB and the consolidated financial statements of the Tognum Group in accordance with IFRS. The annual and consolidated financial statements are hereby approved. We have also accepted the recommendation of the executive board for the appropriation of the net profit.

Changes to the supervisory board and executive board. The election of the employee representatives to the supervisory board of Tognum AG took place on 12 March 2008. Andreas Bemerl, Franz Benz, Heinz Brechtel, Dr. Volker Joos, Patrick Müller and Lilo Rademacher were subsequently appointed to the supervisory board. Manfred Frank and Manfred Menningen were not re-elected and have left the supervisory board. We would like to thank them for their efforts and the services they performed as members of the supervisory board of Tognum AG.

During the annual shareholders' meeting that was held on 10 June 2008, all shareholder representatives were to be elected to the supervisory board. The previous supervisory board members were confirmed in office. The constituent meeting of the supervisory board of Tognum AG took place on 10 June 2008 following the annual shareholders' meeting. Rolf Eckrodt was subsequently appointed chairman of the supervisory board and Patrick Müller as his deputy.

As a consequence of the sale of the EQT shares to Daimler AG, Marcus Brennecke and Udo Philipp left the supervisory board of Tognum AG on 25 June 2008. We would like to thank them for their successful work and wish them all the best for the future. Dr. Edgar Krökel and Andreas Renschler were appointed as their successors by a court order issued by Amtsgericht (lower court) Ulm on 8 July 2008.

Dr. Volker Joos retired from the supervisory board as senior executive representative with effect from 30 September 2008. The inactive phase of his early retirement began on 30 September 2008. We would like to thank him for his dedication and the services he performed for the Tognum Group and express our most sincere appreciation of everything he achieved. He is succeeded by the elected replacement member, Dr. Jutta Nübel, who has been the representative of the senior executives on the supervisory board of Tognum AG since 1 October 2008.

The company's executive board remained unchanged with respect to the 2007 financial year.

Dr. Gerd-Michael Wolters retires from the executive board with effect from 30 April 2009. Dr. Ulrich Dohle is appointed his successor with effect from 1 May 2009.

We have reported on the remuneration system for the executive board and on the remuneration for the individual executive board members in the remuneration report on pages 16-21 of the annual report.

We would like to thank the members of the executive board, all company employees in Germany and abroad, as well as the employee representatives of all companies within the Group for their dedication and successful work performed during the 2008 financial year!

Friedrichshafen, 24 March 2009

For the supervisory board



Rolf Eckrodt

Chairman of the Supervisory Board