News service MAN Group

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MAN AG Annual General Meeting on 9 June 2004
Report by the Executive Board Chairman
Dr. Rudolf Rupprecht

1. Welcome / Introduction

Ladies and gentlemen,

On behalf of my colleagues on the Executive Board, I should like to welcome you most warmly to this year´s Annual General Meeting. I am delighted that so many of you have once more accepted our invitation and take pleasure in again welcoming numerous guests, and hope they enjoy an informative day.

Dr. Jung has already mentioned that the first part of this meeting is being relayed via internet. I should therefore also like to warmly welcome those shareholders and other interested parties following my report on their monitors.

Ladies and gentlemen, before dealing in detail with the company´s performance, I would like to take a brief look at the development of your MAN shares.

Since reaching a low of 10.65 euros on 9 October 2002 in a very weak overall environment, the price of the ordinary shares tripled to over 32.23 euros by 23 April 2004 and is currently still quoted at over 30 euros. As a result, we held third place in the DAX for the full year of 2003, and so far, are actually leading the market in 2004. Overall market capitalisation based on both ordinary and preference shares meanwhile amounts to some 4.5 billion euros.

I am certain that, as owners of the MAN Group, all the shareholders here today are delighted – as is the Executive Board – with this positive performance by their company.

For us, appreciation from investors essentially represents approval of our corporate strategy – a strategy of concentrating on a manageable number of focused core operations which, acting as system suppliers, hold leading market positions and offer customers maximum performance at affordable prices in the face of increasing global competition. We intend to continue to invariably concentrate on the Group´s strengths and eliminate its weaknesses – with the aim of enhancing shareholder value and generating attractive returns.

Please rest assured that the present Executive Board, even under a new chairman as from next year, will continue to work towards ensuring that your investment in MAN shares proves worthwhile.

2. New reporting structure / New corporate image

In order to make it easier for you and the financial community to evaluate the company, we have created a new structure for presenting the MAN Group divisions, which provides for more transparency and a better understanding. The new structure can be seen on the inside cover of the Annual Report. The manufacturing divisions are listed first under "Industrial", namely Commercial Vehicles, Printing Machines, Diesel Engines and Turbomachines, followed by Further Industrial Holdings, into which our smaller enterprises are bundled. Industrial and Financial Services appear under "Services".

Whereas members of our Group were previously listed according to sales volume, they are now classified according to their mode of operation and their function. For instance, in the case of industrial activities with a higher value-adding factor, different rules apply to earnings and returns compared with the services sector. Transparent presentation of each division is of course in no way affected by this reorganisation.

Allow me to make one further preliminary remark relating mainly to our reporting on the year 2003. Our communication activities, which include the Annual Report, now focus primarily on today´s new MAN Group structure, without the SMS operations. This also applies retroactively for 2002. The sale of the first half of our interest in SMS and its deconsolidation led to a reduction in our business volume of some 2 billion euros calculated over the full year, and to a decrease in the number of employees by approximately 10,000; it also resulted in adjustments to the balance-sheet ratios. Since SMS was no longer a member of the Group from 1 October 2003, the figures actually shown in the 2003 financial statements cannot be compared with those for 2002 and above all, form no basis for comparison with 2004. We assume that it is of far greater interest to you as shareholders looking to the future, to assess MAN in its present form. All the consolidated results including SMS, and the transition to the figures reflecting the current structure without SMS, are of course included in the financial statements published in the Annual Report.

Ladies and gentlemen, I should also like to draw your attention to another innovation. We have restructured the MAN brand architecture and modernised the familiar MAN logo, making it in my opinion even more refined. Today is the initial launch of the modified logo, which means that you are the first people outside the Group to see it.

Instead of the blue arc and black lettering, the MAN logo will in future appear in a three-dimensional, metallic-silver form. After eighteen years with the existing logo, we thought it was time to modernise and upgrade our image. The metallic-silver colouring was also selected to reflect our common roots in the field of mechanical engineering.

At the same time, we have put an end to the rather confusing diversity of logos used by various subsidiaries and indirect holdings. In future, all members of the MAN Group will display the MAN logo only, without any additions directly under the arc, such as "Roland", "B&W" or "Turbo", each being identified by its company name appearing next to the logo.

We are hoping that this more attractive and more unified appearance will increase awareness of the Group name, enhance identification of our various activities as part of MAN and, of course, strengthen the identity of the MAN brand - an identity that is associated with mutual values, such as reliability, experience and intrinsic value, but also with innovation, openness and creativity.

3. Performance in 2003

I now turn to the performance of the MAN Group. I shall begin by reporting on the last financial year, as well as the latest developments of recent months. As usual, I will then attempt to evaluate the outlook for the immediate future, as far as this is possible at the present time.

At last year´s Annual General Meeting, I reported that 2002 had begun full of hope for an economic recovery, but was in fact disappointing. At that time we were experiencing, as in the previous year, a slowdown in economic momentum in nearly all parts of the world, whereby economic forecasts were being revised downwards step by step.

The pattern was very similar again in 2003. At the start of the year, expectations for the global economy were directed towards increasing growth, especially in the case of worldwide investment activity. Increasing tension in the Iraq conflict which finally led to war, the outbreak of the SARS epidemic in Asia and the exchange-rate movements ultimately resulted in growth forecasts for some major industrial countries being more than halved in the course of 2003. Overall activity on our capital-goods markets remained extremely subdued during 2003.

It was not until the last quarter that demand began to recover very slowly, and since then we have finally felt a somewhat fresher breeze, with business picking up on a broad scale.

Against this background, the MAN Group recorded a total order intake of 13.7 billion euros, which was equivalent to 2002, while sales declined marginally by 2% to 13.5 billion euros. However, the strength of the euro, especially against the pound and the dollar, had a major impact on these figures. In purely mathematical terms, our business volume would have been some 4% higher if exchange rates had remained at their 2002 level, which would, of course, also have influenced earnings. As always, order intakes differed in each MAN division – in the industrial sectors, growth rates ranged from 2% in the case of Printing Machines to 22% for Turbomachines. The rising order backlogs in the manufacturing divisions put us in a good starting position for this year in terms of workloads, and therefore also in terms of earnings potential, whereas at the beginning of last year, we were facing real problems with idle capacity.

In the case of Industrial Services, which consists of our trading and facility-construction subsidiary Ferrostaal, a 14% drop in new orders was recorded. This was mainly due to the American steel-trading market, which declined sharply as a result of US import restrictions and the devaluing dollar, but had no significant impact on workloads or earnings.

The total order backlog of 7.4 billion euros registered for the MAN Group fell 1% short of the figure for 2002.

There were also distinct regional differences, with the order intake rising by 10% to 3.9 billion euros in **Germany**, due mainly to growth in the sectors of Printing Machines, Diesel Engines and Commercial Vehicles. This was largely a reflection of the fact that MAN Nutzfahrzeuge was once again able to show a marked increase in its share of the German market, and also that an increased number of marine diesel engines were sold on the domestic market, with German shipyards also profiting from the shipbuilding boom during the second half of the year. In other **EU countries**, the order intake fell by 3% to 4.2 billion euros, due mainly to the exchange-rate situation in the face of the weakening pound sterling. In the **rest of Europe**, we were however able to record a strong increase of 22% to 1.5 billion euros, due partially to a series of major contracts.

Meanwhile in **America**, order figures showed a marked 27% downturn to 1.5 billion euros as a result of Ferrostaal´s considerably lower steel-trading volumes in the US, coupled with exchange-rate fluctuations. On the other hand, **Asia** proved to be a growth area and we were able to increase our order intake in this region by some 5% to reach 1.9 billion euros. The most dynamic development was again recorded in China, despite the adverse impact of SARS.

The on the whole subdued trend, an earnings situation which still failed to live up to our expectations and the ensuing measures to increase productivity and profitability led to further reductions in **personnel** during 2003. At the end of 2003, the MAN Group numbered 64,158 employees, without the SMS Group, which was 2.3% fewer than one year earlier. After minor adjustments for companies newly consolidated during the course of the year, the number of employees fell by just under 3%. Behind these overall figures, there was however a notable structural change in the ratios of domestic and foreign employees. The number of people employed by our German companies dropped by over 4% or 1,881 to 41,497, while the number of employees in other countries augmented to 22,661, meaning that the proportion of people employed at foreign locations has now risen from 34% to over 35%.

4. The divisions in detail

Before dealing in detail with the financial statements, I should like to outline the key points relating to the performance of each division.

4.1. Commercial Vehicles

The MAN Nutzfahrzeuge Group was able to record a leap in earnings last year, in spite of a persistently unfavourable environment. Although the market continued to decline in Western Europe, and the high exchange rate of the euro curtailed business activity outside the euro zone, particularly in the case of our exports to the UK, we were still able to increase volume sales and turnover in both the truck and bus sectors. Our share of new truck registrations on the market in Western Europe rose by 1.2 percentage points to 14.9%.

The earnings result was however especially encouraging, rising sharply after two weak years from 13 to 121 million euros before taxes. The main thrust came from successful implementation of our turnaround programme in the bus sector, which brought quicker results than originally expected. This included relocating labour-intensive manufacturing operations to Turkey and Poland, creating a joint platform for the MAN and NEOPLAN bus brands and bundling administrative activities. As a result, a 77-million-euro improvement in earnings in the bus sector contributed to the division´s success. After many years of losses, which have been the topic of repeated discussion here at the Annual General Meeting, the bus operations finally returned to positive earnings, before interest and taxes. Thanks to successful restructuring, but also in view of the perceptible market recovery, we expect earnings in the Commercial Vehicles Division to leap again by over a hundred million in 2004.

4.2. Printing Machines

The market situation in the Printing Machines sector remained extremely weak throughout 2003. Publishers and printers were operating on low margins, surplus capacity dominated the market and many printers provisionally postponed scheduled investments. This resulted in a very slow demand for printing systems. Due to a recovery at year-end, we were able to marginally increase our order intake compared with 2002, but sales again fell significantly, in line with the lower order backlog.

In spite of introducing fundamental cost-cutting measures, most notably at the sheet-fed sites in the Rhine-Main area, we were unable to prevent the Printing Machines Division slipping into the red with overall pre-tax earnings of minus 37 million euros. By consistently pursuing our schemes to revive the sheet-fed business, mainly by amalgamating works in the Offenbach area, introducing cost-saving measures and last, but not least, taking advantage of the return to more encouraging order-intake figures registered since the drupa trade fair, which considerably exceeded our expectations, we have justified hopes that Printing Machines will be able to move back into the black in the course of this year.

4.3. Diesel Engines

In the case of diesel engines, demand and capacity utilisation remained low during the first half of last year. It was not until the second half that we were able to benefit from a strong global recovery in the shipbuilding industry, which also had a marked impact on European shipyards and led to a noticeable boost in demand for marine propulsion systems. Business with stationary engines for use in power stations was however still weak. In all, order intakes for the full year increased by 7% compared with 2002, whereby sales fell, also by 7%, as a result of previous weak order activity. We were able to maintain both our leading position on the market for heavy two-stroke marine engines, capturing a 72% share of all new orders, and our second place for medium-speed four-stroke engines with 19% of the world market. Meanwhile, China´s importance increased considerably during 2003, as this country is currently setting up extensive shipbuilding facilities.

As expected, earnings before taxes declined in this division. Apart from rather weak sales, the costs of restructuring and streamlining production facilities at our British plants were largely responsible for the downturn. For the current year, we anticipate positive trends in sales and earnings.

4.4. Turbomachines

Overall, the Turbomachines Division gave an encouraging performance, even though the strong euro led to certain adverse effects. Order intakes recorded a plus of 22% compared with 2002, reaching an all-time high of 658 million euros, while sales rose by 7% and earnings climbed marginally to 23 million euros. We are expecting a substantial rise in earnings this year and, thanks to high rates of capacity utilisation, also significantly higher earnings.

4.5. Further Industrial Holdings

I now turn to the Further Industrial Holdings Division which is made up of RENK, MAN Technologie, MAN DWE, SHW and several smaller subsidiaries.

RENK´s outstanding market position as the world´s leading manufacturer of tracked vehicles remained unchallenged, with several NATO countries ordering RENK transmissions for their vehicles. Sophisticated solutions for marine applications and planetary gears for wind power plants also sold well. Profitability remained encouragingly high and the return on sales again exceeded 7%.

Orders received by our specialist and global market leader for chemical reactors, **MAN DWE**, exceeded the 100-million-euro mark for the first time in 2003, representing a rise of 49% compared with 2002. These included a major reactor order as part of a methanol project managed by Ferrostaal in Trinidad and Tobago. Sales also leapt by 60%, pre-tax earnings almost tripled from 5 to 13 million euros and a double-digit return on sales was recorded.

SHW, in which we hold 50%, also performed well, the most notable improvement being in the sector of automobile components. SHW registered a double digit increase in order intakes, sales also showing a marked 9% rise, and the EBT reaching a positive 15 million euros after 10 million euros in 2002.

I should like to conclude my review of the Further Industrial Holdings Division by referring to our aerospace subsidiary, **MAN Technologie**, which continued to suffer from the crisis in the European aerospace industry. This was prompted by technical problems in the ARIANE 5 system and the generally weak demand for commercial satellite launches. In spite of a slight increase in new orders, these remained at a low level, while sales again dropped sharply. Compared with the previous year´s loss of 39 million euros, which was exaggerated by extraordinary effects, the deficit was reduced to 19 million euros in 2003.

All in all, Further Industrial Holdings was able to more or less triple its EBIT to 50 million euros, and even quadruple its EBT to 40 million euros.

Ladies and gentlemen, we have repeatedly mentioned that aerospace technology is not one of our core areas of activity. In the case of MAN Technologie´s space operations, we are therefore seeking a mid-term solution outside the Group. We believe that, focused on the aerospace industry in a restructured and highly-rationalised form, MAN Technologie will again become profitable. We then intend to transfer it to an alliance with other companies, which will allow it to perform better than as a member of our Group.

The same applies in the case of the previously-mentioned company SHW, which meanwhile leads the European market for oil pumps used in car engines, and could therefore perform better in partnership with an automobile component supplier than as a member of the MAN Group. Added to this is the fact that, although we run the industrial management based on our 50% share, we do not have the sole control that we enjoy in our core divisions. As a result, we are talking to investors regarding the disposal of our shares. We do not anticipate a swift conclusion to these discussions, which in view of SHW´s excellent profitability, is however by no means a problem.

4.6. Industrial Services

I now move on to our service activities. Industrial Services, which is basically the **Ferrostaal** Group, had to struggle with a number of adverse factors in 2003. In particular the weak dollar and the restrictions on steel imports into the USA due to protectionist measures led to a significant reduction in steel trading. This alone resulted in a drop in new orders of 400 million euros. The group´s total order intake fell by 14%. However, an increase in the facility construction and contracting sector was able to compensate almost entirely for the downturn in sales caused by declining steel-trading volumes in the USA. Ferrostaal´s earnings were affected by losses in the DSD Group, which is still undergoing restructuring, with DSD´s industrial facilities division being integrated into Ferrostaal´s facility construction activities and the steel construction operations hived off to form a partnership with a medium-sized company.

The EBIT generated by the Ferrostaal Group in 2003 remained relatively stable at 73 million euros. Due to lower interest income and the absence of other extraordinary income accruing in 2002, the EBT decreased by 24% to 65 million euros. Nevertheless, showing a 15% return on capital employed, the group remained one of our top performers.

4.7 Financial Services

We were also pleased with the performance in the **Financial Services** Division, which is bundled under MAN Financial Services and is devoted mainly to sales financing. Based on a stable business volume, the EBT increased significantly to 26 million euros. It is worthy of note that this division recorded a return on equity, which is the accepted criteria in the banking sector, of 20.3%.

5. Disposal of SMS

Ladies and gentlemen, one of the key events of 2003 was the sale of our interest in SMS AG already mentioned earlier, which had been in the pipeline for some time. SMS was a disinvestment candidate, again for strategic reasons. Due to the management structure, this partnership, which had functioned in a constructive and value-enhancing way for many years, no longer fitted into our basic concept. Although we held a majority share of 51%, the votes were divided fifty-fifty between us and the other shareholder, the Weiss family, which also appointed the executive board chairman. We therefore lacked the scope necessary to exercise clear management control or take effective action.

With economic effect from 1 October 2003, we transferred the first instalment of 25.5% to the Weiss family. Reciprocal put and call options were agreed for the second half of the shares, to be exercised by the beginning of 2008. The sale of the SMS shares represents a major step towards focusing on our core areas of activity.

6. Income statement and balance sheet

Ladies and gentlemen, I now come to our **consolidated financial statements**.

As explained at the outset, these differ from the figures stated so far, since they include the **SMS** figures for 2002 and up to 30 September 2003. In terms of sales, this represents some 1.5 billion euros attributable to SMS sales during the first nine months of 2003. The consolidated financial statements therefore show sales of 15.0 billion euros. In the case of earnings, it means that although the 2003 results include the on-going nine-month pre-tax losses of 8 million euros accruing to SMS, they also include a contribution to earnings of 50 million euros from the sale of the SMS shares. Consequently earnings before taxes as shown in the consolidated statements amount to 303 million euros and net income to 235 million euros. SMS has however not been consolidated in the balance sheet at 31 December 2003, since the shares were sold with economic effect as of 1 October 2003.

In order to present you with meaningful consolidated statements, the figures have been broken down even further. For the purposes of the income statement, the balance sheet and the cash flow statement, the SMS contributions are shown separately under "discontinued operations". The remainder is shown under "continued operations" and represents the Group in its present form. These figures also form the benchmark for comparison with current business activity in 2004. In the case of continued operations, we have subdivided the figures according to the operational **Industrial Business**, including Industrial Services, and **Financial Services**, which have an entirely different business orientation and a divergent balance-sheet structure. Based on these figures, it is evident that we have an extremely sound asset and capital structure in our operating divisions, excluding financing activities, as well as a highly positive net liquidity. The overall net debt reported by the MAN Group is attributable solely to the Financial Services Division and results from the high levels of borrowed capital required for refinancing, especially in the case of the leasing portfolio, which are typical of this business,

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Ladies and gentlemen, the following round-up of the financial statements is based on the continued operations, namely the Group in its present constellation. The income statement begins with **net sales** of 13.5 billion euros, which fell by 2%. Of relevance for the earnings figure is the fact that the **cost of sales** fell considerably more than net sales, with the result that the **gross margin** improved by almost 100 million euros to 2.5 billion euros. This is a reflection of the cost-savings and the economies of scale achieved mainly in the Commercial Vehicles Division.

Earnings before interest and taxes reached 443 million euros, which was an increase of 52 million euros or 13% compared with 2002. The **net interest result** of minus 182 million euros was almost as high as the minus 178 million euros recorded in 2002. In the case of the Industrial Services Division, the reduction of 19 million euros was due to lower interest rates and the absence of extraordinary income booked in 2002. This was balanced by a drop in interest expense for bank debts of 13 million euros for the entire Group, thanks to our improved financial situation.

In the case of **earnings before interest**, which reached 261 million euros, we were therefore able to register a marked improvement compared with 213 million euros in 2002. In spite of these high pre-tax earnings, **taxes** were reduced from 72 million euros to 69 million euros. The rate of taxation fell from 33.8% in 2002 to 26.4% in the case of continued operations and 22.3% for the Group, including SMS. This was partially due to non-recurring tax income and the tax-free sale of the SMS shares.

Excluding the retired SMS Group, **net income** increased to 192 million euros, representing a rise of 36% compared with 2002. Including the SMS sale, income amounted to 235 million euros. **Earnings per share** improved by 37% from 0.91 euros to 1.25 euros. Added to this were 0.29 euros per share from the sale of SMS, so that we achieved total earnings per share of 1.54 euros.

The cash flow statement shows that **capital expenditure** on tangible and intangible assets amounted to 402 million euros, slightly more than the previous year. This represents a continuation of our moderate investment policy. In the Commercial Vehicles Division, the volume of capital expenditure was marginally higher due to the market launch of the new D20 engine generation, which is already underway. In the case of Printing Machines and Diesel Engines, capital expenditure decreased following completion of various measures aimed at optimising production structures.

Ladies and gentlemen, I would now like to turn to the **consolidated balance sheet**. The changes evident under continued operations compared with the previous year confirm the success of our efforts to further reduce the volume of assets employed in on-going operations and strengthen the Group´s liquidity.

Fixed assets declined by 3% to 3.3 billion euros. We are also well on the way to reducing the net capital employed in the form of **current assets**. The amount of capital tied up in inventories and receivables fell, after deduction of prepayments received, by 4% to 4.8 billion euros. The funds available from short-term accruals and trade payables rose by 10% to 3.3 billion euros.

All in all, we were therefore able to successfully compensate for a large part of the high **outflow of funds** resulting from divestment of the SMS Group. Even after deducting the high net liquidity of 764 million euros attributable to the SMS Group, the **net liquid assets** held by the MAN Group, comprising cash and cash equivalents, short-term securities and financial liabilities, declined by only 178 million euros to minus 439 million euros. In 2003, we realised a net cash inflow of 496 million euros, which was considerably more than the 111 million euros accruing in 2002. The Industrial Business was able to improve its net liquid asset position by almost 500 million euros to 815 million euros. Due to the nature of its business, the Financial Services Division reported a net debt, which decreased by 71 million euros to minus 1,254 million euros. On balance, the net debt recorded by continued operations fell by 571 million euros, or 57%. Last year, MAN Aktiengesellschaft issued its first bond worth 300 million euros via its English finance company which, having been placed successfully on the capital market, will contribute to the Group´s long-term financing.

The **equity** held by the MAN Group amounted to 2.8 billion euros at the end of 2003, 238 million euros more than the previous year, without the SMS operations. The equity ratio improved from 25.8% in 2002 to its present 28.0%. In the Industrial Business sector, where the equity ratio is an important factor for financing, this increased from 30% to well over 32%. In the case of Financial Services, it reached 8% after 7% in 2002.

Pension accruals amounted to almost 1.7 billion euros, 39 million euros more than the previous year. Company pension schemes were financed mainly out of provisions made in the form of pension accruals. Alternative financing possibilities via internal or external funds may be considered if they offer additional benefits based on financial and actuarial criteria. Relevant analyses are currently underway.

In all, the MAN Group held **long-term capital** of 5.5 billion euros, which represented 55% of its total capital. Short-term capital amounted to 4.4 billion euros, of which only 0.4 billion euros were attributable to short-term financial liabilities.

MAN Aktiengesellschaft, whose earnings are relevant for assessing the dividend, recorded a net profit of 180 million euros for the year 2003, after 108 million euros the previous year. This includes the 50-million-euro earnings contribution from the sale of the SMS shares, which was allocated to retained earnings. In total, 70 million euros were transferred to earnings reserves from MAN Aktiengesellschaft´s net profit, while unappropriated retained earnings amounted to 110 million euros. Today, we would like to propose that this amount be distributed in the form of an increased dividend of 0.75 euros per share compared with 0.60 euros last year. This dividend increase underscores the progress made by the MAN Group in terms of profitability.

7. Brief summary of 2003

Ladies and gentlemen, my report shows that in spite of the difficult overall environment, we were able to realise several essential steps last year which we set out to achieve at the beginning of 2003.

- We implemented fundamental measures to restructure the bus activities and, after many years of losses, achieved a turnaround even more quickly than was planned.
- By selling our shares in the SMS Group, we took a major step towards concentrating on our core areas based on clear management structures.
- We accepted the necessary consequences in the space-technology sector, developing a concept for MAN Technologie to limit the negative impact of the European aerospace crisis on the company and restore its stability. This will again make MAN Technologie an attractive partner in the context of a larger aerospace alliance.

- We undertook the necessary measures at MAN Roland to provide a lasting solution to the structural problems arising from market trends, especially in the sheet-fed sector.
- We substantially improved the Group´s net liquid assets, excluding SMS, the high cash flow leading to a total reduction in net debt of 571 million euros or 57%.
- All in all, we made considerable progress in strengthening the profitability of the MAN Group. Even though 2003 brought minimal growth and exchange rates did not move in our favour, we still achieved a significant double-digit rise in earnings, even without the extraordinary income from the sale of SMS.

I believe that these points demonstrate that step by step, we actively realise the plans we announce, instead of passively awaiting better times. We are however also aware that we still have a very long way to go to achieve our goals. As you know, our return targets are 15% on capital employed and 5% on sales in the manufacturing divisions. In 2003, we only achieved 8.3% and 1.9%. That these targets can indeed be reached was shown during the 1999/2000 financial year when we exceeded the 15% return on capital and fell only marginally short of a 5% return on sales.

8. Projects for 2004

What are we doing to make further progress in this direction? Basically, we shall continue to systematically implement our corporate strategy. This is an essential requirement for a promising on-going development of the MAN Group. I should like to briefly remind you of the five key criteria for our core operations.

1. System competence – that is, we offer not only components and individual machines, namely integrated systems geared to customers needs, but also extensive service facilities.

2. Leading market position – we aim to be the leading player in our markets, or at least hold second or third place.

3. Self-supporting business volume – this means that each Group member must reach a minimum size and have the capacity to generate its own growth.

4. Clear management structures – that is, MAN AG must hold a majority and be in the driving seat.

5. Potential to generate high returns.

These principles also act as a guideline for our portfolio policy. To all intents and purpose, the disinventment candidates already mentioned are, or have been, an inevitable result of this course. We are concentrating our financial and personnel resources on areas which fulfil, or are able to fulfil these criteria.

This also benefits our regional expansion plans. We operate in a number of growth markets where we shall, in the near future, be making decisions on how we can speed up expansion of our market presence by increasing investment activity. These include in the first instance China. In this case, concrete studies are currently underway to establish whether and to what extent we should make a concerted effort and in which specific areas investment should be increased. As yet, we are well represented in China.

MAN Nutzfahrzeuge is in the process of forming a subsidiary to co-ordinate its various activities, including the bus joint-venture with Yutong, several facilities manufacturing under licence, sales, service and component purchasing. The Diesel Engines Division produces turbochargers and is expanding its service activities. In addition, we are continuing to develop the licensing business for heavy two-stroke engines and auxiliary engines, which has been well established for many years, and are increasing supplies of medium-speed four-stroke engines. Business in China is also of great significance for the Printing Machines Division. In the case of Turbomachines, China even represents the largest single market at the present time. This country will in fact be playing a principal role in the context of our considerations aimed at creating a cost mix among our domestic manufacturing facilities, coupled with increasing integration of our licensees to form a manufacturing alliance.

However, there are also other countries with above-average growth rates which offer attractive market opportunities. These mainly comprise the new EU members in Eastern Europe, Russia and the other CIS states, Iran and the Arabian countries.

As already announced, the Group´s strategic policies are to become more focused, but we shall still retain our diversification within the engineering sector, supplemented by industrial services operating on a global scale and our Financial Services Division. I am convinced that we will be able to successfully utilise the advantages of this moderate degree of diversification, without having to accept any of its disadvantages. The key flaw of a so-called conglomerate structure is considered to be the fact that individual divisions take things too easy, being cushioned by having the risk spread across the entire group. This results in a permanent state of suboptimal performance.

I can assure you, ladies and gentlemen, that insofar as this "hammock" ever existed, we have meanwhile eliminated it and vigorously oppose any attempts to revive it. We do not accept any division failing to earn substantially less than its cost of capital in the long term. Each division is assessed on the basis of our ambitious return targets. During the recent years of recession, each division has worked consistently at strengthening its profitability, whereby in some cases, the workforces have had to make considerable sacrifices.

In this respect, we have not yet come to the end. As a result of measures already agreed, the total labour force will decrease by some 1,000 in the course of this year. Furthermore, there will be a further reduction of around 500 jobs, mainly in Denmark following the amalgamation of manufacturing facilities, in the sheet-fed sector and at MAN Technologie. Added to this, further cost-cutting potential will have to be exploited as a result of accepting orders based on weak margins, for example in the Printing Machines and Diesel Engines Divisions, in order to utilise idle capacity and retain jobs. We must bring our costs into line with the prices that can be realised on the world market, which ultimately means reducing our overall costs.

9. Comments on the AGM agenda

Before moving on to the outlook, I should like to outline some of the items on the agenda at today´s Annual General Meeting.

Since the management´s present authorisation to purchase the company´s own shares expires in December 2004, under Item 5 we are requesting your approval to renew this authorisation for the legally permissible period of eighteen months from the date of this meeting. Further details of the proposed resolution are contained in the Report of the Executive Board published together with the agenda. This is intended to maintain our future flexibility.

No use has been made of the authorisation passed at last year´s Annual General Meeting. MAN AG therefore does not hold any of its own shares.

Under Item 6, we are proposing that the basic annual remuneration payable to members of the Supervisory Board be increased to 10,000 euros with effect from 2005. The basic amount payable since 1 July 1999 is no longer considered a commensurate minimum remuneration for Supervisory Board members, since for legal reasons their responsibilities, their workload and their liability risks have increased considerably. This point was also raised by yourselves at the last General Meeting. Furthermore, MAN currently "brings up the rear" among DAX-listed companies in terms of fixed Supervisory Board remuneration.

The management´s proposal does not entail any changes to the variable, dividend-related remuneration which, based on the level of dividends meanwhile reached, forms the major part of the total remuneration payable.

Item 7 envisages obtaining approval to conclude a domination agreement between MAN Aktiengesellschaft as the controlling company and its wholly-owned subsidiary, MAN Altersversorgung GmbH. The object of this subsidiary is the provision of pension services, primarily for members of the MAN Group. The main aim of taking full control is to integrate the company as part of the Group for tax purposes. A report has been drawn up on this domination agreement and published on our internet website. It is also available here at the Annual General Meeting for all shareholders who may be interested.

10. Outlook

I now turn to the company´s current performance and the outlook for the future. As already stated in our report on the first quarter issued in mid-May, a surprisingly strong rise in incoming orders was registered by nearly all divisions up until April. The figures for May received a few days ago indicate that this upswing has continued and even gained momentum compared with April.

During the month of May alone, order intakes jumped by 34% compared with the same month last year. This means that the volume of new orders rose by 22% to 6.2 billion euros during the first five months, and sales by 10% to 5.2 billion euros. This accelerated growth is partially due to a marked increase in major orders, which climbed by 43% to reach a total of 554 million euros. Yet on-going operations, which clearly dominated our business activities, were also up 20%, reaching almost 5.7 billion euros after rising 18% during the first four months.

There were equal increases in both domestic and foreign trade, with orders rising by 21% to 1.7 billion euros in Germany, and incoming orders worth 4.5 billion euros being received from abroad, representing an increase of 22%.

Practically all MAN divisions contributed to this encouraging upward trend. Commercial Vehicles recorded a 20% rise in orders to 3.2 billion euros, Diesel Engines increasing by 28% to 679 million euros and Turbomachines by 13% to 276 million euros. I should like to make special mention of the Printing Machines Division which benefited greatly from the surprisingly brisk activity at the drupa 2004 trade fair and by May, was able to register a total figure of 645 million euros, 14% higher than the order intake at this time last year, even though business stagnated at a low level up until April. During the drupa, MAN Roland took orders worth over 470 million euros, most of which will however only be booked over the next few months when the contractual details have been settled.

New orders in the Further Industrial Holdings Division reached the same level as 2003, with RENK and SHW increasing their figures, while MAN Technologie and MAN DWE each recorded a lower order intake.

Ferrostaal, our Industrial Services Division, continued to show a clearly positive trend, recording the highest rate of growth with a rise of 39% and an order volume of almost 1.3 billion euros, thanks to a recovery in the steel-trading business and several major orders.

In the case of MAN Financial Services, incoming orders increased by 16% to reach 288 million euros.

These positive rates of change should not however mislead us, since, like all companies in the capital goods sector in Germany, our starting position was, depending on the area of activity, based on extremely low levels of business volume. Moreover, the surplus capacity still prevailing in several divisions is causing some projects to be entered into on the basis of conditions that are not particularly favourable. Added to this are less advantageous exchange rates and the sustained competitive pressure resulting from globalisation. All this means that we may not relent in our efforts to reduce costs.

However, we can confirm that today we are rather more optimistic regarding order intakes and sales in 2004 that at the time of issuing our forecast in the Annual Report. In the case of new orders, we should reach double-digit growth in percentage terms; the rise in sales will probably be somewhat lower. We are still adhering to the positive statements on the earnings position made in the quarterly report, which exceeded our forecast in the Annual Report, namely that, provided a more friendly economic climate continues to prevail, we are confident of reaching earnings before taxes in the order of 400 million euros. This would represent a 50% increase compared with 2003. Although we would still not have reached our ultimate goal, I believe that this result would provide a good basis for coming very close to our return targets in 2005 and perhaps even reaching them. In this respect, I should like to wish my successor a skilful hand and every success.

Ladies and gentlemen, finally I wish to thank all of you, thank you for your trust and for your patience. This is my eighth and last Annual General Meeting as Executive Board Chairman of MAN AG, so I would like to take this opportunity of saying goodbye to you. I would ask you to show my successor, who has been appointed today by the Supervisory Board, the same generosity and the same trust that you accorded me. I thank you, as well as the ladies and gentlemen on the Supervisory Board, for your constructive and fruitful cooperation over all these years and look forward to the second half of this year, as there are still several things we wish to achieve together. Thank you very much and goodbye.