News service MAN Group

Press release of June 4, 2003

Speech made by Dr. Rudolf Rupprecht, chairman of the executive board of MAN Aktiengesellschaft, at the company's Annual General Meeting, held on 4 June 2003

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, including several school classes and a number of students. I hope you enjoy an interesting and informative day.

Ladies and gentlemen, Dr. Jung has just expressed his gratitude to **Dr. Schinzler**, who is regrettably retiring from the Supervisory Board. I should like to echo his words and thank you, Dr. Schinzler, on behalf of the Executive Board for your constructive and productive work as a member of our Supervisory Board. Over the years, you repeatedly acted as a driving and stimulating force in the interests of the company. We wish you all the best, including strength and success in your present and future assignments with the Münchener Rückversicherung, along with our best personal wishes.

And now allow me to turn to the performance of the MAN Group. I shall begin by reporting on the last financial year and recent developments of the past few months. Subsequently I shall, as usual, attempt to offer an outlook for the current year, as far as this is possible in these difficult and rather uncertain times, and provide an indication of how we intend to shape the future.

2. Performance in 2002

Last year was marked by **increasing political uncertainty** and a **continuous deterioration in the economic situation**.

We are active in more than 120 countries around the world, either via our own subsidiaries or sales offices, and waning economic momentum was recorded in almost all regions. At the same time, economic researchers and international economic institutes **progressively retracted their forecasts for the year**.

As a result, following on 2001, we now have another difficult year behind us, although as you all know, hopes of an economic recovery in the second half were still high last spring. However in the end, we established that the markets for most capital goods had once again contracted. The intensifying conflict in Iraq created an additional strain. The extraordinary costs incurred as a result of the Fairchild Dornier insolvency and the abortive ARIANE 5 launch have already been described on several occasions.

Considering these unfavourable conditions, the MAN Group **performed relatively well**, remaining within the parameters forecast. This is evidenced by the key figures.

- **New orders** of 15.7 billion euros maintained their 2001 level.
- **Sales** fell only slightly from 16.3 to 16 billion euros.
- While domestic business remained weak, we were able to improve our position abroad, the **share of foreign orders** increasing by 9 percentage points to 75% of all incoming orders over the past five years.
- **Earning before taxes** rose marginally from 213 to 219 million euros.
- Our **proposed dividend** remains unchanged at 0.60 euros.
- And last, but not least, we achieved our goal of an improved financial balance, substantially reducing our net debt position by 25% to 261 million euros.

2.1 Divisional results

The overall MAN Group result is based on very **diverse developments in the divisions** and in individual companies, whereby we can differentiate among three main categories.

Firstly the activities which achieved a turnaround and now show high improvement potential, pending an economic upturn. At the moment, these comprise our largest division of Commercial Vehicles.

Secondly, those divisions or activities which continued to perform at a high level, but due to the weak economy, were no longer able to generate the record earnings of previous years. These included the sectors of Industrial Services, namely the Ferrostaal Group, Diesel Engines and most companies in the Industrial Equipment and Facilities Division.

The third group is made up of companies impacted by especially critical market conditions, which consequently suffered from very low earnings or losses. These were primarily MAN Roland, MAN Technologie and the SMS Group. Based on this classification, I should like to begin with the first group, represented by **Commercial Vehicles**.

2.1.1 Commercial Vehicles

The MAN Nutzfahrzeuge Group achieved a **turnaround** and was able to record marginally positive pre-tax earnings in line with our forecast, even though higher losses had to be absorbed in the bus sector. **Earnings before taxes** reached 13 million euros, after minus 49 million euros in 2001, representing a positive swing of 62 million euros. The operating result, that is before interest and taxes, also rose strongly from 64 to 102 million euros.

This encouraging trend in pre-tax earnings resulted partially from an improved financial balance and consequently lower interest expense, due largely to the significant reduction in inventories. The **MAN-branded trucks sector** showed a particular improvement in operating performance, being able to increase pre-tax earnings by more than 40% or 44 million euros to 142 million euros, in spite of a 14% drop in unit sales.

In this sector, the far-reaching measures undertaken during 2001 and 2002 to restructure the organisation and reduce costs began to take effect. These included personnel reductions, a new organisational structure, savings in material and overhead costs, clear separation of production activities for different models and reduced inventories leading to interest savings.

Although the British subsidiary **ERF** continued to have a negative effect on earnings, the impact was much less than in the previous year when, as you know, considerable expenditure was required to streamline and restructure the company following the discovery of manipulated balance sheets. ERF has meanwhile been merged with the English sales subsidiary of MAN Nutzfahrzeuge to form MAN ERF UK Ltd. While retaining a dual-brand strategy, the back-office functions of both companies have been fully amalgamated.

With the exception of one assembly unit retained to complete and modify the ERF models supplied from the Continent, which are now based on MAN´s TGA design, all production activity was discontinued in July 2002. The new vehicles are meeting with increasing acceptance amongst ERF´s traditional customers and we hope to recoup most of the market shares currently lost.

The problem child in the Commercial Vehicles Division is however still the **bus sector**, which with losses of 84 million euros slipped even deeper into the red than the previous year, when a loss of 54 million euros was recorded. In addition to consolidation of the loss-making NEOPLAN operations based on figures for a full year instead of six months following acquisition of the company in mid-2001, the reasons for this loss were a slow market and the ensuing pressure on prices, but also the fact that the costs of labour-intensive activities, such as the construction of basic shells, are too high. This is forcing us to **relocate** some of the simpler value-adding operations to our plants in Poland and Turkey.

The full range of new measures to be undertaken in the bus sector, most of which were announced in March of this year, is aimed at drastically reducing costs and, by concentrating on high-grade operations, at providing future **long-term security** for some 2,500 of the 4,700 jobs originally recorded at **German locations** in mid-2001.

Our target is to **halve the loss in the bus sector in 2003**, reach breakeven by the fourth quarter of 2004 and move into the black in 2005. A contribution towards achieving this goal will also come from the new **MAN-NEOPLAN platform strategy**, enabling us to construct both brands of buses using a considerably reduced number of individual parts.

We are firmly resolved to restructure the entire bus operations. We no longer intend to tolerate lasting loss contributions or accept the bus business as a chronic subsidy candidate. I am under the impression that all those involved, including the employees, have realised the severity of the situation and I therefore see a good possibility that, based on the steps just outlined, as well as increasing utilisation of synergies with NEOPLAN, we shall at last be able to lead these operations out of the red.

As a result of our consistent restructuring efforts, we are expecting a **further significant improvement** in earnings for the entire Commercial Vehicles Division in 2003, even in the face of stagnating or only slightly increased sales volumes. This will also be a decisive impetus for the profit performance of the entire MAN Group, based on the assumption that the economic prospects do not grow even gloomier.

2.1.2 Industrial Services, Diesel Engines, Industrial Equipment and Facilities

The **second group** of largely stable business operations includes the majority of MAN Group´s activities. These were able to maintain a high level of earnings, even if not quite matching the record figures of 2001, which was to be expected.

The **Industrial Services Division,** which is represented by the Ferrostaal Group and operates on a worldwide scale in the fields of plant construction and trading in machinery and steel, as well as providing logistics services, again recorded excellent pre-tax earnings of 85 million euros, after the exceptionally high figure of 104 million euros the previous year. Once again, Ferrostaal proved to be a **reliable provider of high-yield revenue** for the MAN Group. In spite of lower earnings, the return on capital employed still reached 14.8%, falling only marginally short of our 15% target.

The greater part of Ferrostaal´s earnings resulted from major orders for plant construction and contracting, as well from its steel-trading and logistics activities. Earnings in the sectors of industrial equipment and systems, and in the DSD Dillinger Stahlbau Group were less satisfactory. DSD´s domestic steel-construction operations have come under severe pressure due to underutilisation and considerable capacity reductions are currently underway.

The Ferrostaal Group was the only MAN division to increase both its order intake and sales. One new **major order** worth mentioning in the plant construction and contracting sector, was for a second ammonia plant in Trinidad & Tobago with a volume of more than 300 million dollars, the first plant being successfully commissioned in 2002. Added to this were sulphur recycling plants for Chile and contracts for other plants received for instance from Libya, Iran and Turkmenistan.

Ferrostaal´s marked **international bias** and its **competence** in creating customised projects and intelligent financing concepts represent the key advantages of this group. These factors are of particular importance in emerging and developing economies where Ferrostaal also acts as a sales partner for other MAN Group companies, demonstrating very distinctive **synergies** in our diversified Group.

Declining global demand, especially in the case of cruise liners, impacted the heavy four-stroke engine activities at **MAN B&W Diesel**. At the same time, new orders for diesel power stations also decreased, partially due to the trend in the dollar rate. The two-stroke engines recorded only a temporary dip, since the East Asian shipbuilding industry has meanwhile made a strong recovery.

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In spite of a decline in **new orders**, **sales** remained stable at approximately 1.4 billion euros. **Earnings** before taxes of 68 million euros fell only marginally short of the record result of 75 million euros in 2001.

Although the **return on capital employed** fell slightly from 17.4 to 16.8%, it still exceeded our target.

Last year, MAN B&W Diesel successfully launched a new **turbocharger** onto the market, rounded off its range of **four-stroke engines** by adding medium-speed models, and not only commissioned the **world´s most powerful heavy two-stroke engine** with an output of almost 100,000 hp, but also introduced a new, fully-electronic **control system** to optimise consumption and greatly improve emission levels.

In the near future, we will be presenting **further innovations** in this sector to show that the potential of the diesel engine, which with our technical and financial support, Rudolf Diesel first set running in one of our **Augsburg factories** some 107 years ago, is still far from being exhausted. Thanks to constant innovation and improvement, we are now the **world´s leading supplier** of heavy two-stroke diesels, which are mainly constructed under licence by companies in the Far East. On the market for large four-stroke engines, we hold second place, a much higher proportion of these being manufactured in our own works.

In the course of the current year, business volume is expected to decline in the wake of slowing market activity, leading to a corresponding decrease in earnings. In the medium term, we assume that demand will recover and that following our structural realignment, there will be a return to higher profitability, particularly in England.

The companies in the **Industrial Equipment and Facilities Division – excluding MAN Technologie** which was mentioned at the outset – were able to increase their total earnings from 58 to 68 million euros.

The smaller companies bundled under **"Other industrial equipment and facilities"**, such as MAN DWE, MAN WOLFKRAN and MAN Logistics, significantly improved their earnings contribution from 4 to 12 million euros.

The **MAN Turbomaschinen Group,** which since its successful merger with Sulzer Turbo now holds third place on the world market for compressors and industrial turbines, suffered a slight drop in both new orders and sales. Based on the successful introduction of new products and expansion of the service facilities, we are sustaining our strong position on a currently difficult market. Earnings decreased slightly to 22 million euros while the return on capital employed slipped from 16.8 to 11.7%. The **newly-merged company** was **successfully** integrated and reorganised, so that we are still extremely satisfied with our takeover of Sulzer´s activities.

Although **RENK,** our transmissions specialist, recorded declining business volumes and earnings, **profitability remained above-average**, showing a 19% return on capital employed. At present, RENK´s most successful products include the automatic transmission originally used only in Germany´s Leopard tanks, which thanks to its compact size and reliability is meanwhile used by a large number of tank manufacturers in modified form. There was also a rising demand for large-scale gear units for stationary and marine use, as well as for our newly-developed gear units designed for large wind-power stations.

Earnings also levelled off at Schwäbische Hüttenwerke GmbH – **SHW**, although still remaining high and producing a return on capital employed of 14%.

To complete the picture, let us take an overall look at the **Industrial Equipment and Facilities Division**, including MAN Technologie, which I shall also deal with separately. Here, new orders dropped from 3.4 to 3.3. billion euros and sales from 3.6 to 3.5 billion euros. As a result of the setback at MAN Technologie already mentioned, earnings declined from 63 to 29 million euros.

This second category of companies, where there was little change, also included **MAN Financial Services.** As a result of the weak economic climate and more intensive credit checks, our financing subsidiary experienced a drop in its intake of new leasing business. Sales however rose yet again, leading to a slightly improved EBT figure of 17 million euros.

2.1.3 Printing Machines, MAN Technologie

Ladies and gentlemen, based on the classification undertaken at the outset, I now come to the **third group** of companies which came under considerable pressure last year as a result of extreme and therefore unforeseeable market developments.

The **printing-press business** suffered immensely from restrained investment activity on the part of printing companies in the wake of the global depression on the advertising and promotion markets. The printing industry has run into an unusually difficult situation, such as we have never experienced before.

After several years of pursuing a remarkably **successful product and market strategy**, which enabled the MAN Roland Druckmaschinen Group to strengthen its position as world leader in the sector of newspaper printing systems and become the second-largest supplier of sheetfed presses, the company was able to generate record earnings of 89 million euros in 2001.

However, the slump in market activity experienced last year, especially the lower turnover in the sheetfed sector, loss-making customer-financing activities in the US and the necessary restructuring costs, caused **profits to drop** to 10 million euros in 2002. **New orders** dropped by 23% in the MAN Roland Druckmaschinen Group, due mainly to the fact that following the downturn in the sheetfed sector, orders for webfed systems also declined. **Sales** decreased by 13% to 1.8 billion euros, although due to their long throughput time, webfed systems remained almost stable, while the quick-turnaround sheetfed business contracted by a double-digit figure.

At the end of last year, MAN Roland began the process of bundling three of its sheetfed works in Offenbach. This step is part of an **extensive set of measures** which also includes the webfed production sites in Augsburg and Plauen, and is scheduled to bring savings of 130 million euros.

Our efforts are focused on two aspects. Firstly, we must weather the present very difficult economic situation and adjust our capacities – this being achieved by introducing short-time work, as well as other means. In addition, we must however – and this applies mainly to the sheetfed operations in Offenbach – **lower the breakeven point on a long-term basis** in order to improve resistance to future fluctuations in capacity utilisation and offset market-induced pressure on margins. By concentrating works in the Offenbach area and at the same time reducing the vertical production range, as well as continuing our restructuring programme, which also includes reorganisation of a wide range of business processes, we are on the right track. This process of realignment will entail a corresponding reduction in personnel.

In spite of this strained situation, we still continued our **research and development drive**, with expenditure amounting to 7% of sales in the sector of webfed and sheetfed systems. It is expected to remain at about this level in future. As a result of our acquisition of the Hamburg software company, ppi, at the beginning of 2002, we have positioned ourselves as world leader in the market for the electronic control and **networking of printing works**, including upstream editorial activity. This year´s first deliveries of the new **ROLAND 900 XXL** model close a gap in the range of large-size sheetfed systems, greatly increasing our market opportunities.

These are key steps directed at expanding our market shares over the next few years. We are still expecting a distinctly weak performance this year in terms of markets and volumes, so that earnings will show a negative figure. However, we anticipate new stimulus, although initially at a low level, in 2004, which is the year of the drupa, the world´s largest printing-equipment fair.

As already briefly mentioned, our **aircraft and aerospace subsidiary MAN Technologie** was exposed to two major negative developments in the European aerospace industry. Namely, the **crisis in the European Ariane space programme** as a result of fewer satellite launches and the problematic financial situation at Arianespace, including technical problems with the ARIANE 5. This was coupled with the **insolvency of the aircraft manufacturer Fairchild Dornier**, for which we had, as a supplier, carried out a considerable amount of work in advance. In addition, the discontinuation of NASA´s expansion programme for its international space station further depressed business activity.

The consequences were high depreciation, operating losses and restructuring costs, so that after a profit of 5 million euros in 2001, a pre-tax loss of 39 million euros was incurred in 2002. Here again, we had to initiate radical countermeasures to adjust production capacity in line with what could be a longer-term reduction in market volumes.

The **SMS Group** continues to suffer from extremely weak activity on its global markets and must consequently undergo further restructuring. It was however still able to improve earnings from minus 9 to plus 6 million euros.

Allow me to conclude my review of the divisions by briefly mentioning the holding company, **MAN AG**. Its earnings performance was marked mainly by the absence of the extraordinary costs accruing from the British subsidiary ERF in 2001. **Discontinuation of this additional expenditure** led to an improved result under the item "holding, other and consolidated" in 2002, from minus 84 million euros to minus only 3 million euros.

3. Income statement, balance sheet

At this point, ladies and gentlemen, I should like to bring my overview of divisional activities to a close and comment on the main features of MAN´s consolidated financial statements, focusing on the main items in the **income statement** and **balance sheet**. The figures can be found in the Annual Report from page 88 onwards. I shall begin with the income statement.

Compared with the 2% decline in **sales revenue** to just over 16 billion euros already outlined, the **gross margin** fell by slightly more, namely 4%. There were two reasons for this, the first being a shift towards a higher proportion of consolidated sales accruing from trading and financing activities, which are known to yield substantially lower margins. This led to an optical reduction in the consolidated margin. Secondly, accounts for several loss-making contracts were settled in the Industrial Equipment and Facilities Division, again lowering the return on sales, but failing to impact earnings owing to the loss provisions made in earlier years. Printing Machines also generated a lower gross margin in 2002. These effects concealed the very positive impact of the improved margin in the Commercial Vehicles sector resulting from cost-savings.

In the case of **other income and expenses,** other operating income and other operating expenses declined, showing on balance an improvement of 127 million euros. During 2001, there were a number of extraordinary occurrences, both on the expense and income sides, which did not recur in 2002.

Expenditure on research and development totalled 580 million euros in 2002, after 620 million euros the previous year. This amounted to 4.6% of the sales generated by our manufacturing companies and was some 6% lower than expenditure in 2001, which included a major R&D thrust to complete development of the new truck series. Expenditure was curbed in the R&D sector in 2002, but to a lesser extent than in other cost centres – and this figure was still appreciably higher than the levels of earlier years. This shows that we are by no means neglecting provision for our future.

Earnings before interest and taxes reached 391 million euros, 6% lower than the previous year´s figure of 416 million euros. A substantial improvement in earnings resulted from the **net interest result** of minus 172 million euros, an improvement of 31 million euros compared with 2001. This was partially due to our lower net financial debt, which was systematically reduced as planned. The falling interest rates throughout the year also helped to enhance the interest result, allowing for a marginal improvement in **earnings before taxes** to 219 million euros, compared with 213 million euros in 2001.

Tax expenditure incurred by the MAN Group rose by 16% to 72 million euros, which was considerably more than the increase in the pre-tax result. This rise accrued primarily from trade tax and deferred taxes. **Net income** amounted to 147 million euros, 4 million euros less than the previous year. The higher earnings generated by the SMS Group resulted in a renewed increase in minority interests to 12 million euros, causing **earnings per share** to fall from 1.01 to 0.92 euros.

The **returns** recorded by the MAN Group confirm that 2002 was a difficult year. Although the final figures were in line with forecasts, they were well below the average targets that we have set ourselves for the duration of any economic cycle and which were last achieved during the 1999/2000 financial year. The **return on sales**, targeted at 5%, reached no more than 1.4%. This reflected the extremely weak results achieved by the Roland and Technologie operations, as previously described, but also the improved, yet still below-average results in the Commercial Vehicles Division and the SMS Group.

In the other divisions and subgroups, the return on sales was more or less in line with expectations. This also applied to the **return on capital employed,** for which we have set an average target of 15% over the period of any economic cycle, and which amounted to no more than 6.9% in 2002.

MAN Aktiengesellschaft, whose result is significant for determining the amount of the dividend, generated a **net income** of 108 million euros in 2002, after 88 million euros in 2001. 20 million euros of this was appropriated to **retained earnings reserves**, while **unappropriated retained earnings** amounted to 88 million euros. Today, we would like to propose that this sum be distributed in the form of a **dividend** amounting to €0.60 per share, the same as last year.

Ladies and gentlemen, I should now like to return to the consolidated financial statements, more specifically the consolidated balance sheet. The overall picture shows that we made further progress in reducing the resources tied up in operating assets during 2002 and that balance sheet ratios improved, in spite of the difficult economic situation.

The volume of **fixed assets** decreased by 2% to 3.7 billion euros. **Capital expenditure** was reduced considerably from 1,278 million euros in 2001 to 997 million euros. 463 million euros, a reduction of 16%, were spent on **tangible and intangible fixed assets**, following substantial increases in investment volumes in recent years to launch the new TGA truck series. For the first time in many years, the capital expenditure on tangible and intangible assets of 463 million euros was lower than the figure for depreciation and disposals which amounted to 522 million euros.

It was also possible to reduce the level of **funds committed** in the form of inventories and receivables by 4% to 5.4 billion euros, in spite of a considerable drop in the prepayments received. In both cases, this contributed to an overall positive development in the financial position of the MAN Group during 2002. The **gross financial debt** declined from 1.9 billion euros to 1.5 billion euros, the

negative financial balance being reduced from 347 million euros to 261 million euros.

This year, we are continuing to actively pursue our goal of **decreasing net debt levels**, even though these are already low.

At 2.9 billion euros, MAN Group **equity** remained the same as in 2001, while the **equity ratio** improved from 23.7% to 24.7%. Excluding loan-financed equipment which is leased out, 97% of our **fixed assets** are now covered by equity, compared with 93% in 2001.

Pension accruals amounted to almost 2.1 billion euros, after 2.0 billion euros in the previous year. These are valued in accordance with IAS, allowing for index-linked developments affecting future pension adjustments and benefits schedules, based on current estimates of biometric trends.

In recent months, discussion has focused on using pension accruals, external funds or other methods to finance company pension schemes. In the notes to this year´s financial statements, we have therefore outlined the situation in the MAN Group in rather more detail than previously, as can be seen in the Annual Report from page 113 onwards. As you know, our pension commitments are essentially financed by provisions in the form of pension accruals. In 2002, we again earned the costs of servicing current pension obligations accruing during the financial year and the interest expense for obligations which had already accrued, representing together a total of 170 million euros.

These were offset by **pension payments** of 109 million euros. This means that based on the traditional German method of booking retirement benefits, our own balance sheet shows an **internal financing contribution** of 61 million euros. During the generally weak financial year of 2002, the return on capital employed of 6.9% was still higher than the accrued interest rate of 6%.

Overall, the MAN Group has **long-term capital** amounting to 5 billion euros, representing 43% of our total capital. It was possible to reduce short and mid-term **loans** by 0.5 billion euros to 6.7 billion euros.

So much for the performance of the MAN Group in terms of income, expenditure and balance-sheet assets.

4. Employees

The **number of employees** in the Group continued to decline. This is inevitable when faced with cutting excess capacity, reducing costs, restructuring sites and bundling underutilised production structures.

During 2002, the number of employees in the MAN Group decreased by 2,552 to 75,054. Based on a **comparable scope of consolidation**, that is excluding some minor acquisitions made in 2002, 3,017 jobs were shed, representing about 4%. On the same basis, the number of employees fell by 2,345 during 2001. This makes a total of 5,362. Including the temporary staff whose employment ended during this period, we more than achieved the anticipated reduction of 6,000 employees announced two years ago. Ladies and gentlemen, in view of the unchanged difficult situation on our markets and the pressure on prices and conditions, this adjustment process is not yet complete. Above all in the sectors of printing systems and buses, but also in the SMS Group and some of our foreign companies, further modifications will have to be considered. This process will continue throughout this year and next year.

Wherever possible, we try to reduce staff **without terminating contracts for operational reasons** and on a **socially-acceptable** basis, which is successfully realised in the majority of cases. In addition, we make use of many possibilities for opening up new **perspectives** to employees leaving the company, either by negotiating a lump-sum compensation, contacting employment and training agencies, or via our own placement efforts. Perspectives are also created within the company based on our efforts to promote **vocational and management training**, as a result of which our employees are generally well-qualified and consequently enjoy better prospects on the job market.

Once again, the proportion of **employees** working for the MAN Group **outside Germany** rose slightly from 34% to 35%. This reflects the trend in the spread of our business volume, 75% of which is, as already mentioned, meanwhile generated abroad. Five years ago, the share of foreign-based workers amounted to no more than 26% and foreign business volume to 69%. This is of course also a sign of the particularly weak development in our domestic business.

At this point, I should like to expressly thank **all our staff at home and abroad**, in all our subsidiaries and branches, for their dedication and their commitment in such difficult times.

5. Corporate Governance

Ladies and gentlemen, for some time now, politicians and industry have been intensively preoccupied with the subject of **corporate governance**, namely criteria for ensuring good and responsible, as well as transparent management and control of commercial enterprises. We believe that up until now, we have however been very much on the right track.

The **German Corporate Governance Code** has provided us with a standard, based on which we are able assess and substantiate our performance.

From the outset, the level of concurrence between our rules and regulations and the provisions of the Code was extremely high.

In order to improve this even further, the appropriate resolutions have been passed by the Executive and Supervisory Boards and today, we wish to request you amend the memorandum and articles to enable us to additionally comply with the last outstanding recommendations. These relate to separate remuneration for the deputy chairmen of the Supervisory Board and the chairmen and members of the Audit Committee. In this way, we can acknowledge the special commitment called for in such positions. Should you agree to this amendment, we will **fully comply with the Code´s**

recommendations.

We have meanwhile set up a Supervisory Board **Audit Committee,** whose responsibilities were previously carried out by the Standing Committee.

Another recommendation which has already been realised is adherence to the **45-day period** for publishing quarterly reports and the 90-day limit for reporting on the previous financial year.

A **complete overview** of the degree of compliance with the Code, including its non-binding **suggestions**, can be found on our website.

6. Shares

Ladies and gentlemen, a constantly recurring theme at our Annual General Meeting in recent years has been the position of our shares in the DAX 30 **share index**. Following revision of the DAX criteria, according to which only the most liquid free-floating share class is relevant, in our case the ordinary shares, and our **share-conversion** project in the summer of 2002, we have been able to substantially strengthen our position in the index.

The conversion of preference into ordinary shares was extremely successful. At this point I should very much like to thank those former preference shareholders who responded to our appeal and exchanged their securities for ordinary shares. You have remained loyal to your company, taking a step that was both right and very important, although it involved payment of a premium, and consequently making a significant contribution towards stabilising our position in the DAX. In all, just under 31 million of the almost 37 million original preference shares were converted into ordinary shares. As a result, the **number of free-floating ordinary shares** increased by 44%.

Today, we would like to ask you to renew our **authorisation to repurchase the company´s own shares**. This more or less represents an extension of the existing authorisation granted last year by another eighteen months. At the present time, there are no concrete plans to purchase MAN shares. Full details of this item of the agenda are explained at length in your invitation to this Annual General Meeting.

As already reported at the last Annual General Meeting, all own preference shares held by the company were cancelled in March 2002 and since then, no more shares have been repurchased. This means that MAN does not hold any own shares at the present time.

The **performance of our shares** in 2002 was of course by no means satisfactory. In view of the unfavourable economic trends, the stock markets were generally weak, although the prices of our ordinary shares tended better than the DAX at the beginning of 2002. Taken over the year as a whole, their performance remained **in line with the DAX**. During the first five months of this year, **our share prices have** once again **outperformed the index**, which has risen by 3% since the beginning of 2003. MAN´s ordinary shares have however increased by 10%, this performance positioning us among the top third of the DAX-listed stocks.

I very much regret that the economic and stock-market trends, and subsequently your company and MAN share prices, have not rewarded you, our shareholders, with a sustained rise directly following the share conversion project.

In the event of a prolonged recession, we as a manufacturer of capital goods cannot isolate ourselves from general economic developments, but as a diversified Group with activities in the fields of vehicle construction and mechanical and plant engineering, we are by no means as dependent on economic cycles as a one-product company.

For some time now, public opinion on this subject has also been changing. Conglomerates are no longer automatically dismissed, many analysts having recognised that what counts in the long term is the ability to **generate profits**, even during a protracted **economic downswing**, and to earn one´s own funds for investing in the future without making excessive use of the capital markets.

7. Current developments

Ladies and gentlemen, the necessary adjustments have to a large extent been completed or initiated and in the course of this year, we shall be taking the remaining steps to ensure that the entire Group becomes **more competitive and more profitable** in the future. We are using this period of weak economic momentum in the marketplace to consolidate, reduce costs and make ourselves lean and fit.

It cannot however be denied that the unexpectedly restrained economic activity has made us aware of **weak spots** in the Group which would not have come to light in a more favourable environment. This helps us to take a more fundamental and far-reaching approach to many issues than would be possible under normal circumstances.

7.1 First quarter of 2003

The results for the first quarter of 2003, but above all the economic forecasts for 2003 which have been revised downwards yet again, have strengthened our conviction that this approach is right. As already reported, **new orders** for the period January to March fell by 2% compared with the same period last year, due to the economic situation and currency effects. **Sales** on the other hand rose by 5%, this being largely attributable to additional settlements which led to higher sales at Ferrostaal and in the Industrial Equipment and Facilities Division. It was possible to improve earnings before interest and taxes, the **EBIT**, by 43 million euros to plus 5 million euros, while **earnings before taxes** improved by 44 million euros, but still showed a loss of 31 million euros.

The first quarter of each financial year is traditionally very weak at MAN and we pointed out to the press and analysts at an early stage that a negative EBT was possible for the first quarter. However, the result apparently surprised many people and was partially responsible for the temporary fall in our share prices in mid-May. In the case of plant and engineering companies, quarterly and even sixmonthly figures are problematic and can only be used to a limited extent as a basis for projections, since considerable fluctuations are often recorded during these short periods.

The provisional new order figures for May underscore the current weak state of the market. As per the end of May, we now show a cumulated shortfall of around 5 % compared with last year. This setback is due partially to exchange rates and partially to the impact of an abrupt downturn in business in China.

In view of the current project status, we expect to be able to close this gap over the next few months.

7.2 Currency effects

For the first time, we noted a clearly quantifiable **effect of currency exchange rates** on our business volume during the first quarter. The increasing value of the euro, especially against the dollar, but also against the pound and yen, resulted in a calculative reduction in our incoming orders of about 2 percentage points. After adjustment for exchange-rate fluctuations, orders would have remained stable compared with last year´s figure. This was not as strongly evident in the case of sales, due to the time lag between receipt of new orders and their impact on sales. Thanks to our extensive forward cover, there have **as yet** been **scarcely any noticeable effects** on earnings.

Currency hedging is in place for all major contracts, as well as the greater part of our current operations. Consequently, the rising value of the euro has not yet had a direct influence on earnings, but is affecting current contract negotiations and the related price structuring. In the event of a sustained downward trend in the dollar, we must undoubtedly expect increasing negative implications for our earnings performance.

8. Outlook

Ladies and gentlemen, I now come to the **outlook for the full financial year of 2003**. In recent weeks, our business environment has continued to suffer and failed to develop as expected some two months ago, based on the favourable scenario of a **short war in Iraq**. Although the swift end to the war means that the impact of this conflict on the global economy will remain fairly minimal, a new element of uncertainty has emerged and is already having a market effect on our business activity in Asia, namely the **SARS** epidemic.

This is mainly affecting China which, as the only major country to record appreciable rates of growth over the past two years, has moved up to head the list of the world´s growth regions.

The countries of Asia are now predicting a notable **setback in their growth** for the full year. Travel is still greatly restricted and projects are being delayed. Although the epidemic may have almost disappeared from the media, we must expect that our export business to China and the neighbouring countries will continue to suffer.

The **economic prospects** for this year, and unfortunately also for the coming year, have generally become even gloomier in recent months. For this year, the German government, economic research institutes, the EU Commission, the OECD and the International Monetary Fund have all readjusted their growth forecasts for Germany´s **gross domestic product**, which includes exports, from on average 1.5 to 2% down to figures of around 0.5%. And for 2004, the OECD has for instance already reduced its prediction for Germany from 2.5 to 1.7%. Similarly, the **forecasts for the industrialised Western countries as a whole** are also edging downwards.

Although as always, our various divisions may be expected to perform differently, this still means an overall decline in the demand for capital goods, increasing pressure on the conditions for new orders and on margins.

Even under these difficult conditions, we must and we shall improve our competitive strength and **achieve a sustained increase in profitability**, so that we emerge not only intact, but with renewed strength from this phase of weak economic activity. We are also adhering to our goal of achieving an **improvement in earnings** by the end of this difficult year.

This can however only be realised by introducing additional cost-management measures, some of which I have already outlined during this speech. I am convinced, ladies and gentlemen, that by the end of this year, we shall be able to say that we have done what is required of us as managers of a commercial enterprise. Please rest assured that as soon as light appears at the end of this economic tunnel, we shall be prepared for immediate acceleration.

Thank you for your attention.