2003 Annual Report
MAN Aktiengesellschaft

Leading the Markets.

At a glance

MAN Group excl. the discontinued SMS Group operations
€ million

	2003	2002	Change in %
Order intake	13,744	13,719	0
Sales	13,546	13,850	–2
Employees (number)*	64,158	65,635	–2
Capital expenditures for (in)tangible assets	402	398	1
R&D expenditures	520	532	–2
Cash earnings	768	776	–1
Shareholders' equity*	2,784	2,546	9
Earnings before interest & taxes (EBIT)	443	391	13
Earnings before taxes on income (EBT)	261	213	23
Net income	192	141	36
Distribution	110	88	25
Earnings per share	€1.25	€0.91	37
Dividend per share	€0.75	€0.60	25
Return on capital employed	8.3%	7.1%	
Return on sales	1.9%	1.5%	

MAN Group figures as per financial statements
€ million

	2003	2002
Order intake	14,896	15,720
Sales	15,021	16,040
Employees (number)*	64,158	75,054
Capital expenditures for (in)tangible assets	424	463
R&D expenditures	549	580
Cash earnings	857	885
Shareholders' equity*	2,784	2,891
Earnings before interest & taxes (EBIT)	477	391
Earnings before taxes on income (EBT)	303	219
continued operations	261	213
SMS Group (to 30 Sept. 2003)	(8)	6
from disposal of SMS	50	–
Net income	235	147
Distribution	110	88
Earnings per share	€1.54	€0.92
Dividend per share	€0.75	€0.60
Return on capital employed	8.7%	6.9%
Return on sales	2.0%	1.4%

* At 31 December 2003 and 2002

MAN Aktiengesellschaft

Industrial

Commercial Vehicles

MAN Nutzfahrzeuge is one of the leading commercial vehicle manufacturers in Europe with production plants in Germany, Austria, Poland, Turkey and South Africa.

- Trucks from 7.5 to 50 t for every field of application
- Buses and coaches
- Vehicle, marine and industrial engines
- Services for every aspect of commercial vehicles

€ million	2003	2002
Order intake	6,772	6,525
Sales	6,707	6,564
Earnings before taxes (EBT)	121	13
Employees*	34,094	34,398

Printing Machines

MAN Roland Druckmaschinen is a globally leading manufacturer and system supplier for the graphic arts industry.

- World market leader in web offset presses for newspaper printing & commercial jobs
- Second-largest manufacturer of sheet-fed offset presses for publishing, advertising and packaging printing
- Supplier of digital offset printing systems for multi-color short-run production
- Supplier of integrated services and software products for all printing needs

€ million	2003	2002
Order intake	1,575	1,542
Sales	1,516	1,808
Earnings before taxes (EBT)	(37)	10
Employees*	9,465	10,300

Diesel Engines

MAN B&W Diesel is the »birthplace« of the Diesel engine and a globally leading manufacturer of large Diesel engines with works in Germany, Denmark, England and France.

- World market leader for two-stroke propulsion engines and designer of the world’s most powerful Diesel engine with 97 MW
- Worldwide leading supplier of large four-stroke Diesel engines for marine propulsions, power plants and railways

€ million	2003	2002
Order intake	1,460	1,363
Sales	1,312	1,408
Earnings before taxes (EBT)	44	68
Employees*	6,625	6,889

Turbomachines

MAN Turbomaschinen is one of the worldwide leading manufacturers and service providers for turbines and compressors.

- Manufacturing, testing, erection and commissioning of single machines and complete machine trains
- Compressors for almost every industrial process
- Gas and steam turbines for mechanical drives and power generation

€ million	2003	2002
Order intake	658	539
Sales	567	530
Earnings before taxes (EBT)	23	22
Employees*	2,494	2,500

Further Industrial Holdings

- RENK is one of the world´s leading providers of power transmission engineering.
- MAN Technologie supplies components for the aerospace industry.
- MAN DWE is a global leader in special reactors for the chemical industry.
- SHW produces components for the automobile industry.

€ million	2003	2002
Order intake	894	818
Sales	837	843
Earnings before taxes (EBT)	40	10
Employees*	4,500	4,678

* number at 31 Dec. 2003 and 31 Dec. 2002

Services

Industrial Services

Ferrostaal is a worldwide supplier of industrial services.

- Engineering, supply, assembly, project management as well as customised financing packages for industrial plants
- Trade with steel products as well as machines and infrastructure-related equipment, industrial and systems logistics, piping supply
- Delivery of navy and merchant vessels

€ million	2003	2002
Order intake	2,738	3,178
Sales	2,880	2,916
Earnings before taxes (EBT)	65	85
Employees*	6,689	6,598

Financial Services

MAN Financial Services provides financial services for customers and MAN Group companies.

- Sales financing with focus on commercial vehicles and printing systems
- Insurances and full-service offerings for customers operating vehicle fleets
- Equipment and real-estate leasing for MAN Group companies

€ million	2003	2002
Order intake	607	602
Sales	627	628
Earnings before taxes (EBT)	26	17
Employees*	87	77

»The MAN Group is one of Europe’s leading producers of capital goods with annual sales of approximately €14bn and 64,000 employees worldwide.«

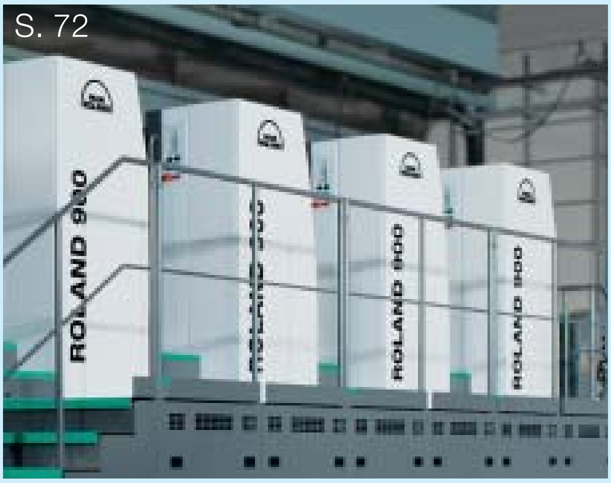
Engineering the Future.

The MAN Group holds leading positions in its markets and aims to strengthen these even further. Each core business in the MAN Group is systematically geared to achieving a leading technological edge and securing one of the top three places in the relevant market segment. Based on its traditional spirit of innovation, long experience in the marketplace and an unmistakable focus on customer needs, MAN has attained a strong position.

– MAN Nutzfahrzeuge is Europe's number three supplier of trucks and buses.
– MAN Roland Druckmaschinen ranks number one in the world with web-fed printing presses and number two with sheet-fed systems.
– MAN B&W Diesel is the world's number one supplier of two-stroke diesel engines and number two with four-stroke medium-speed engines.
– MAN Turbomaschinen ranks number three in the world with compressors and industrial turbines.
– Ferrostaal is the leading global provider of combined technical and financial-engineering services.

Leading the Markets.

Contents



Cover: Detail of a crankshaft on a heavy two-stroke diesel engine. MAN is the world's leading supplier of heavy marine diesel engines with outputs of up to 130,000 HP.

Report of the Supervisory Board

Dr. Eng. h. c. Volker Jung,
Chairman of the Supervisory Board

At five meetings held during the 2003 financial year, the Supervisory Board was presented with detailed information by the Executive Board on the economic situation of the companies belonging to the MAN Group, as well as on business developments and company policy in the form of both written and personal reports. Events of significance for business operations and matters of corporate planning were also discussed with the Executive Board. In addition, written reports on current business performance were submitted to the Supervisory Board at the end of each quarter.

Furthermore, the Chairmen of the Executive and Supervisory Boards held regular meetings to discuss all important issues relating to company policy and current business operations. Minutes of the Executive Board meetings were submitted to the Supervisory Board Chairman, providing details of all topics on the agenda and ensuring that the information required by the Supervisory Board to duly carry out its duties was made available at all times.

The Supervisory Board attached particular importance to discussing the strategy pursued by the Executive Board, which was aimed at concentrating MAN Group activities on core operations holding leading technological and market positions, and focusing the investment portfolio accordingly. Disposal of the SMS Group was a specific issue in the context of streamlining the portfolio.

Following the introduction of separate remuneration for Deputy Supervisory Board Chairmen and for the Chairman and members of the Audit Committee at the 2003 Annual General Meeting, an unqualified declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code was issued in July 2003. The Group's compliance with the provisions of the Code during the 2003 financial year were reviewed at a meeting of the Supervisory Board held in November 2003, when decisions relating to its future implementation were also made. Following this, the annual declaration of compliance was jointly issued by the Supervisory Board and the Executive Board in December 2003, to the effect that the company had complied with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with the compliance declaration of 12 December 2002, as amended by the declaration issued in July 2003, and with one exception was now complying with the prevailing recommendations of the Code, as amended on 21 May 2003. Details of compensation paid to individual members of the Executive Board will be reported in the Notes to the Consolidated Financial Statements insofar as the average salary of all Executive Board members will be stated. In the opinion of the Executive and Supervisory Boards, this will be adequate to meet the information needs of our shareholders.

During the year under review, the Supervisory Board's Standing Committee addressed matters relating to investment policies and streamlining the portfolio, in particular disposal of the SMS Group. In accordance with its terms of reference, the Audit Committee formed on 12 December 2002 held three meetings to review the annual financial statements for 2002, select and instruct the auditors and deal with material issues relating to preparation of the balance sheets and measures to improve risk management. The Committee for Executive Board Personnel Affairs met twice during the financial year. No meetings of the Arbitration Committee formed in accordance with Sec. 27 para. 3 Co-Determination Act were required.

BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Munich, which was appointed as auditor for the company at the Annual General Meeting, has audited the financial statements of MAN Aktiengesellschaft and the consolidated financial statements for the year ended 31 December 2003, as well as the management report, which includes both company and group operations, each of which has been certified without qualification of any kind. The auditor attended the preparatory meetings held by the Audit Committee and the financial audit meeting of the Supervisory Board and reported accordingly. We have taken note of and approved the results of the audit proceedings.

Nor are there any objections to be raised by the Supervisory Board following discussion and examination of the financial statements by the Audit Committee and the final result of its own audits of the financial statements, the consolidated financial statements and the management report. We endorse the annual financial statements prepared by the Executive Board, which have therefore been duly adopted, along with the consolidated financial statements. We have considered and agreed to the proposal for the appropriation of retained earnings submitted by the Executive Board.

Following his resignation, Dr. Schinzler's term of office as member of the Supervisory Board expired at the close of the Annual General Meeting on 4 June 2003. During this meeting, the company took its leave by paying tribute to the commendable services of Dr. Schinzler, who belonged to the Supervisory Board for more than ten years, having acted as Deputy Chairman since the end of 2000. At this point, we should again like to express our thanks for his many years of noteworthy activity on behalf of the Supervisory Board. Dr. Heiner Hasford, a member of the executive board of Münchener Rückversicherungsgesellschaft, was elected as successor to Dr. Schinzler at the Annual General Meeting. Following the Annual General Meeting, the office of Second Deputy Chairman of the Supervisory Board was assigned to Dr. Achleitner.

We should like to extend our warm thanks to all members of the executive boards and boards of directors, as well as the staff of all companies in the MAN Group for their achievements and active commitment. Our thanks also go to the employees' representatives for their objective and constructive cooperation in the interest of the company.

Munich, 24 March 2004
Chairman of the Supervisory Board

Volker Jung

Supervisory Board

Dr. Eng. h.c. Volker Jung
Munich,
former member of the Executive Board of Siemens AG (retired 30 Sept. 2003),
Chairman

Dr. rer. pol. Gerlinde Strauss-Wieczorek*
Rüsselsheim,
Secretary of the German Metalworkers Union,
Deputy Chairwoman

Dr. oec. Paul Achleitner
Munich,
Member of the Executive Board of Allianz AG,
Deputy Chairman (appointed 4 June 2003)

Dr. jur. Hans-Jürgen Schinzler
Munich,
former Chairman of the Executive Board of Münchener Rückversicherungs-Gesellschaft,
Deputy Chairman (retired 4 June 2003)

Jürgen Bänsch*
Augsburg,
Chairman of the Works Council at MAN Roland Druckmaschinen AG,
Augsburg Plant

Michael Behrendt
Hamburg,
Chairman of the Executive Board of Hapag-Lloyd AG

Detlef Dirks*
Augsburg,
Chairman of the Works Council at MAN B&W Diesel AG, Augsburg Plant

Jürgen Dorn*
Munich,
Chairman of the Works Council at MAN Nutzfahrzeuge AG, Munich Plant

Dr. rer. nat. Hubertus von Grünberg
Hanover,
Chairman of the Supervisory Board of Continental AG

Jürgen Hahn*
Essen,
commercial employee,
Ferrostaal AG

Dr. jur. Heiner Hasford
Munich,
Member of the Executive Board
of Münchener Rückversicherungs-Gesellschaft (appointed 4 June 2003)

Dr. phil. Klaus Heimann*
Frankfurt/Main,
Secretary of the German Metalworkers Union

Prof. Dr. rer. pol. Renate Köcher
Constance,
Managing Director of the Allensbach Institute for Public Opinion Research

Nicola Lopopolo*
Hanover,
Chairman of the Works Council at RENK AG, Hanover Plant

Andreas de Maizière
Bad Homburg,
Member of the Executive Board
of Commerzbank AG

Prof. Dr.-Ing. Dr. h.c. mult. Joachim Milberg
Baldham,
former Chairman of the Executive Board
of BMW AG

Lothar Pohlmann*
Oberhausen,
Chairman of the Works Council at
MAN Turbomaschinen AG, Sterkrade Plant

Karl-Heinz Schneider*
Augsburg,
First Delegate of the German Metalworkers Union

Prof. Dr.-Ing. Ekkehard D. Schulz
Düsseldorf,
Chairman of the Executive Board
of ThyssenKrupp AG

Ralf Simon*
Munich,
Director at MAN Nutzfahrzeuge AG

Dr. rer. nat. Hanns-Helge Stechl
Mannheim,
former Deputy Chairman of the Executive Board of BASF AG

* Elected by Group employees

Executive Board

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03

04

01 Dr.-Ing. E. h. Rudolf Rupprecht, Chairman
02 Dr. rer. pol. Ferdinand Graf von Ballestrem, Finance
03 Dr. rer. nat. Wolfgang Brunn, Technology
04 Prof. Dipl.-Ing. (FH) Gerd Finkbeiner, Printing Machines

05 Dr. jur. Matthias Mitscherlich, Industrial Services
06 Dipl.-Ing. Håkan Samuelsson, Commercial Vehicles
07 Dr. jur. Hans-Jürgen Schulte LL.M., Diesel Engines
08 Dr. jur. Philipp J. Zahn, Controlling

Executive Board

Dr.-Ing. E. h. Rudolf Rupprecht
Munich,
Chairman

Dr. rer. pol. Ferdinand
Graf von Ballestrem
Munich

Prof. Dipl.-Ing. (FH)
Gerd Finkbeiner
Neusäß

Dr. jur. Matthias Mitscherlich
Mülheim on Ruhr

Dipl.-Ing. Håkan Samuelsson
Munich

Dr. jur. Hans-Jürgen Schulte LL.M.
Augsburg

Dr. jur. Philipp J. Zahn
Munich

Dr. rer. nat. Wolfgang Brunn
Gröbenzell
(Deputy)

Executive and Management Boards of Group Companies

MAN Nutzfahrzeuge AG, Munich

Dipl.-Ing. Håkan Samuelsson, Chairman; Prof. Dr.-Ing. Franz Breun; Dr.-Ing. Georg Pachta-Reyhofen; Frederik van Putten; Dipl.-Ökonom Anton Weinmann

MAN Roland Druckmaschinen AG, Offenbach

Prof. Dipl.-Ing. (FH) Gerd Finkbeiner, Chairman; Dr. oec. publ. Ingo Koch; Dipl.-Ing. (FH) Paul Steidle

MAN B&W Diesel AG, Augsburg

Dr. jur. Hans-Jürgen Schulte LL.M., Chairman; Dipl.-Ing. Fritz Pape; Dr.-Ing. Peter Sunn Pedersen; Dr.-Ing. Stefan Spindler

MAN Turbomaschinen AG, Oberhausen

Jürgen Maus, Chairman; Dr.-Ing. Hans O. Jeske; Dr.-Ing. Josef Meyer

RENK Aktiengesellschaft, Augsburg

Prof. Dr.-Ing. Manfred Hirt, Spokesman; Ulrich Sauter

MAN Technologie AG, Augsburg

Dr. rer. nat. Wolfgang Brunn, Chairman; Dipl.-Ing. Carl F. Kolbow; Dipl.-Ing. Walter Köppel (Deputy)

MAN DWE GmbH, Deggendorf

Dr.-Ing. Josef Dachs, Spokesman; Dipl.-Betriebswirt (FH) Reinhold Stock

Schwäbische Hüttenwerke GmbH, Aalen-Wasseralfingen

Dr.-Ing. Lothar Hauck, Chairman; Dr.-Ing. Stephan Timmermann

Ferrostaal AG, Essen

Dr. jur. Matthias Mitscherlich, Chairman; Dipl.-Ing. Jens Gesinn; Helmut Julius; Dr.-Ing. Axel Wippermann

MAN Financial Services GmbH, Munich

Dipl.-Kfm. Christian Fellerer; Dr. mont. Dipl.-Ing. Lothar Habel; Dipl.-Verw.-Wiss. Rainer Laber

As at March 2004

Letter to our Shareholders

Dr.-Ing. E. h. Rudolf Rupprecht,
Chairman of the Executive Board

Dear Shareholders,

Firstly, I should like to thank you on behalf of the Executive Board for the trust you have shown yet again in 2003. It was by all means an eventful business year, during which some important decisions were made for the future of the MAN Group. MAN also came considerably closer to its goal of once again achieving a good overall performance.

We stepped up our efforts to implement, bring to a close and introduce new restructuring and cost-reduction measures. These were seen not only as a short-term remedy for the disruption brought upon us by the recent economic slump, but also as a source of lasting strength for the Group's competitive capacity and its profitability in the years to come. A whole series of innovations due to be launched onto the market in 2004 are also part of this strategy. We are making ourselves fit to withstand the challenges of the EU East enlargement and grasp the opportunities it offers, and to successfully take our next steps in the marketplace, for instance in China and Russia.

We have successfully restructured our bus operations. In creating a joint platform for MAN and NEOPLAN products we made considerable progress. As a result, the bus activities were already operating at a profit in 2003, instead of 2004 as planned. This has brought to an end long years of losses and put us on course for lasting positive returns in the bus sector.

Major events occuring in 2003 included the sale of our 51% share in SMS AG, which had been in the pipeline for some time. This represented a major step towards focusing on profitable core activities, since with only a 50% voting share in SMS, we lacked the clear management structure needed to provide scope for effective action.

One remarkable occurrence was the attempt planned in the spring and early summer to take over MAN based on the very low share prices prevailing at that time. We could not and would not agree to this, since the purchase price that you as shareholders could have expected was far below the real value of the MAN Group. The level meanwhile reached by our share prices offers justification of our judgement and our actions.

Your MAN enjoys a stable core portfolio, based on a structure that is geared to future needs and offers a counterbalancing potential that will continue to prove its worth. In spite of weak economic activity that persisted into the third quarter, the crisis in the printing and publishing sector and serious problems in the European aerospace industry, the company showed a positive overall performance, competently weathering this turbulence. The Commercial Vehicles Division was able to significantly improve earnings and register a slight increase in its share of the European market, while Printing Machines closed with a loss as a result of operating below capacity, especially in the sheet-fed sector. As expected, earnings fell short of the high 2002 figures in the case of Diesel Engines and Industrial Services, but Turbomachines remained stable. Further Industrial Holdings recorded an improvement, with even MAN Technologie significantly reducing its losses.

Our earnings for 2003 not only showed the slight rise forecast in the course of the year, but thanks to a good business performance in the fourth quarter, were able to register a marked upturn. For the first time since 1999/2000, we shall again be proposing a dividend increase of 25% to €0.75 per share.

Progress in economic terms, the sale of SMS and the resulting enhanced clarity of our Group structure were reflected in the performance of MAN shares. Whereas the DAX 30 rose by over 37% in the period, the price of MAN's ordinary shares climbed by almost 83% to rank among the top three stocks in the German Share Index. Following announcement of our figures for 2003 and confirmation of our positive earnings expectations for 2004, MAN shares also continued to rise at the beginning of 2004. As a result, the stockmarket value of your company more than doubled between the beginning of 2003 and the end of February 2004.

What are our prospects for the near future? Unlike the situation in the two previous years, the economic recovery appears to be strengthening in 2004. Yet there are still risks. The strong euro could, for instance, again impede growth. In 2003, our business volume would, in purely mathematical terms, have been some 4% higher in the absence of a strengthening euro. In addition, the wage settlement with the metalworkers, which exceeded the increases in productivity, failed to conform with economic necessity.

Nevertheless, following on from the end of 2003, the trend in order intakes has continued to show a distinctly positive trend during the first few months of 2004. It is particularly encouraging to note that the manufacturing divisions are recording definite rises, leading to an increase in value added and in workloads.

2004 will be a year of innovations for MAN. During the earnings dip that lasted for several years, but now lies behind us, your company lost nothing of its technological proficiency. The most recent example of this was the launch of our new D20 common-rail engine series in February 2004, following four years of development work. The specifications surpass our previous commercial-vehicle engines in all relevant aspects. We are also planning to introduce major new developments and improvements in the sectors of heavy diesel engines, printing systems, turbochargers and turbomachines.

In the course of 2004, we shall correct the disruptive factors already mentioned, continue to streamline our portfolio by way of minor disinvestments and implement additional selective restructuring measures. Our goal is to further increase the value of your investment in MAN, not only in the short term, but also in the mid and long term. As a result of our various internal measures, we anticipate another strong boost in yields in 2004. How near this will bring us to our return targets will essentially depend on economic developments and exchange rates. With a little tailwind from the economy, it should be possible to reach our ambitious return targets by no later than 2005.

We would be delighted to have you accompany us along the way.

Yours sincerely,

R. Rupprecht

Rudolf Rupprecht
Chairman of the Executive Board, MAN Aktiengesellschaft

Management report for the fiscal year ended December 31, 2003

Compared with 2002, fiscal 2003 closed with much improved earnings for the MAN Group thanks to Commercial Vehicles which continued along the path toward erstwhile sound profitability.

As to 2004, we are expecting the MAN Group to show a slight gain in order intake and sales. In the wake of the preceding restructuring programs, the manufacturing divisions are likely to deliver considerably higher profit contributions converging into another solid earnings growth.

Highlights

- **The MAN Group much improved its profitability in fiscal 2003. Excluding the retired SMS Group, EBT rose 23 percent to €261 million, EBIT by 13 percent to €443 million, and EpS by 37 percent to €1.25.**

- **The Executive and Supervisory Boards propose increasing the dividend on MAN stock from €0.60 to €0.75 per share.**

- **Including the earnings delivered by SMS business and the gain from this latter's sale, the MAN Group achieved an EBT of €303 million, up 38 percent over 2002. Net income climbed 60 percent to €235 million and EpS 67 percent to €1.54.**

- **With economic effect as of October 1, 2003, the SMS Group retired from the MAN Group under a share deal. As a consequence, MAN lost a business volume in the range of €2 billion and some 9,000 employees. Apart from the financial information section, the figures quoted in the annual report no longer include SMS.**

- **Order intake by the MAN Group totaled the year-earlier €13.7 billion. The manufacturing divisions showed an about 5-percent advance, trading business (Ferrostaal) declined. Sales at €13.5 billion were down by 2 percent.**

- **While the retirement of the high-liquidity SMS Group trimmed the MAN Group's net liquidity by €764 million, the cash flow from operating activities—revved up from €629 million a year ago to €906 million in 2003—plus a lower outflow of cash & cash equivalents for investing activities (at €317 million, down from €532 million) largely compensated for this decrease. As of December 31, 2003, the MAN Group's liquidity resulted in a net liability of merely €439 million (up from €261 million including the SMS Group).**

- **As to 2004, we are counting on a slight growth in order influx and sales for the MAN Group. Following the preceding restructuring programs we expect much higher profits from the manufacturing divisions and another surge in earnings, the extent hinging on the strength of the economic recovery and the exchange rate situation.**

The economy and our business

The economic environment

After a hesitant start the global economy began to pick up again in the course of 2003. Spurred on by the situation in the United States, the economy gained pace worldwide, albeit the uncertainty fueled by the Iraq crisis did initially have a restraining impact. Asia again showed overall vigorous growth, despite the SARS fallout, while China particularly took on the role of economic driving force for the region. Business activity was especially buoyant in the nations of Central and Eastern Europe. The only region unable to keep pace was Western Europe, most notably Germany that failed to achieve the forecasted growth of 0.5 percent (as predicted in spring by the economic institutes), this nation's GDP slipping by 0.1 percent. Only toward the end of the year did demand for capital equipment show signs of recovery.

Amid these economic scenarios the markets of relevance to the MAN Group showed disparate trends. Demand for commercial vehicles in Western Europe, which has been drooping for years, again dipped in 2003. Plunging worldwide in 2002, demand for printing machines, reached its nadir in 2003. Although some recovery became apparent toward year end, the overall result for the period was a decline over the year before. Demand for large marine and stationary diesels weakened, to begin with, but some resurgence did become very much evident in the latter half of the year. The market for compressors and industrial turbines was very mixed, depending on product and region, although on balance showing appreciable growth. Investment propensity in large plant complexes was generally weak worldwide while international steel trading shrank, especially due to the soft dollar and import restrictions imposed by the United States.

Order intake gains by the manufacturing divisions

Within such heterogeneous markets, the MAN companies booked total orders worth €13.7 billion, the year-earlier magnitude. Throughout the manufacturing divisions, order intake advanced, only the trading business of Industrial Services showing a decline.

Order intake*
€ billion

* MAN Group excl. the discontinued SMS Group operations

Orders booked inside Germany rebounded 10 percent to €3.9 billion, mainly due to Printing Machines and Diesel Engines, whose domestic business is normally of less significance, as well as Commercial Vehicles whose sales inside Germany again accounted for 35 percent.

Order intake by region*
€ million

	2003	%	2002	%
Germany	3,943	29	3,588	26
Other EU	4,192	30	4,311	31
Other Europe	1,514	11	1,240	9
Asia	1,909	14	1,817	13
Americas	1,543	11	2,108	16
Africa	536	4	578	4
Australia and Oceania	107	1	77	1
	13,744	**100**	**13,719**	**100**

* MAN Group excl. the discontinued SMS Group operations

Order intake in non-German business slipped 3 percent to €9.8 billion. The EU suffered a slight setback of 3 percent to €4.2 billion, mainly due to a weakening pound sterling. The remaining countries of Europe increased by 22 percent to €1.5 billion, one reason being a number of megacontracts. Asia was again a growth region with an advance of 5 percent to €1.9 billion. In contrast, orders booked from the United States slumped 27 percent to €1.5 billion, chiefly on account of the loss by the US dollar (down 10 percentage points) and the lower volumes and prices (down some 20 points) for Ferrostaal's US steel trading business. All told, exchange rate factors eroded order intake by the MAN Group by some €500 million or around 4 percentage points compared with 2002.

Sales inched down 2 percent to €13.5 billion. Throughout the divisions, sales were more or less at the year-earlier levels. The only exception was Printing Machines whose sluggish order inflow in both 2002 and 2003 drove sales down by 16 percent.

Sales*
€ billion

* MAN Group excl. the discontinued SMS Group operations

Business by divisions

As part of our closer focus on core businesses and due to the sale of SMS, we have now reformatted our report on the MAN Group. To start with, we report on the manufacturing divisions—Commercial Vehicles, Printing Machines, Diesel Engines and Turbomachines as well as Further Industrial Holdings. Thereafter we take a look at Industrial Services (Ferrostaal Group) and Financial Services (MAN Financial Services).

– Even though Western European market volumes again retreated, **Commercial Vehicles** managed to raise its order intake in 2003 by 4 percent to €6.8 billion. Sales gained almost 2 percent to €6.7 billion. The added orders resulted from Trucks that booked business worth €5.6 billion (up 4 percent). Sales climbed 2 percent to €5.5 billion. Western European registrations for trucks over 6 t again fell compared with the already very low figure for 2002, by 5 percent to 280,400 units, a six-year low. Despite this, we outperformed the market and achieved a total of 41,850 new commercial vehicle registrations in Western Europe in 2003 (a 1.2-percentage point gain to 14.9 percent). Worldwide our commercial vehicle shipments amounted to almost 56,000 units, a 4-percent rise over 2002. Fierce competitive pressure did not prevent us from tenaciously focusing on more profitable products and contracts.

Bus orders more or less equaled the year-earlier volume of €1.2 billion (up 1 percent), sales climbing 5 percent to €1.2 billion. The Western European market for buses also shrank in 2003, by 1 percent to 23,550 units. With our MAN and NEOPLAN buses, we managed to hold on to our market share of 14.3 percent. By abstaining from financially unsound megaprojects in Germany we lost ground at home but scored gains, however, abroad.

Order intake by division*
€ million

	2003	%	2002	%
Commercial Vehicles	6,772	49	6,525	48
Printing Machines	1,575	11	1,542	11
Diesel Engines	1,460	11	1,363	10
Turbomachines	658	5	539	4
Further Industrial Holdings	894	7	818	6
Industrial Services	2,738	20	3,178	23
Financial Services	607	4	602	4
Interdivisional	(960)	(7)	(848)	(6)
	13,744	**100**	**13,719**	**100**

* MAN Group excl. the discontinued SMS Group operations

– The graphics industry again found itself generally in a highly critical condition in 2003. Poor capacity utilization throughout and mutating trends within the media of relevance to the advertising and advertisement markets have squeezed printshop margins with the consequence that, for the time being, many have decided not to invest in new equipment. Compounding the problems is the significant drop in prices for printing machines, impacting heavily on both our sheet- and web-fed products. Within such an environment orders booked by **Printing Machines** added up to €1.6 billion by year-end, 2 percent above 2002 yet still very poor and far below the level of years back. Orders for sheet-fed machines reached €708 million (up 1 percent), for web-fed it improved by 6 percent to €651 million. Trading & Services booked orders worth €216 million (down 5 percent). In terms of sales, which slumped to €1.5 billion (down 16 percent) this unit suffered from the dwindling demand for web-fed machines in recent years.

– Thanks to a solid Q4 demand, **Diesel Engines** showed an overall order book increase of 7 percent to €1.5 billion, chiefly due to a buoyant shipbuilding market which fueled demand for container ships and hence for the large 2-stroke engines mainly built by our Far East licensees. The 4-stroke medium-speed diesels likewise benefited from keener demand from the shipbuilding markets and managed to sharply boost its marine business. In contrast, business in four-stroke medium-speed engines for power plants was again battered by waning interest in new complexes and a robust euro, the outcome being disappointing order intake. Orders booked for four-stroke high-speed diesels again ebbed although turbocharger business did make encouraging progress. Since there was a rush of orders only in the final quarter of the period, these failed to materialize in sales, which slipped 7 percent to €1.3 billion.

– Appreciable pick-up in demand for **Turbomachines** used in the primary materials industry and for air separation purposes as well as sharp increase rates in our important market of China combined to propel order intake for this equipment to a new all-time high of €658 million (up 22 percent). The North American market, in contrast, was again soft. Sales of Turbomachines climbed 7 percent to €567 million.

Sales by division*
€ million

	2003	%	2002	%
Commercial Vehicles	6,707	50	6,564	47
Printing Machines	1,516	11	1,808	13
Diesel Engines	1,312	10	1,408	10
Turbomachines	567	4	530	4
Further Industrial Holdings	837	6	843	6
Industrial Services	2,880	21	2,916	21
Financial Services	627	5	628	5
Interdivisional	(900)	(7)	(847)	(6)
	13,546	**100**	**13,850**	**100**

* MAN Group excl. the discontinued SMS Group operations

– Order intake by **Further Industrial Holdings** rose to €894 million (up 9 percent), sales slipping 1 percent to €837 million. In terms of orders booked and sales RENK, MAN DWE and Schwäbische Hüttenwerke all recorded further gains. At MAN Technologie, although order influx did show growth over 2002, delays in awarding the contract for the ARIANE 5 components meant that the year total was still in no way satisfactory. Sales by MAN Technologie toppled 33 percent to €123 million.

– At €2,738 million, sales by **Industrial Services** (Ferrostaal Group) were down by 14 percent, mainly on account of shrinking steel trading in North America caused by a buoyant euro plus steel import restrictions imposed by the United States and together accounting for about €400 million less sales. At €2,880 million (down 1 percent), sales matched the year-earlier volume, receding US steel trade contrasting with rising business in plant construction and contracting.

– At €607 million (up 1 percent) and €627 million (as in 2002), order intake and sales at **Financial Services** (MAN Financial Services) were more or less stationary.

Order backlogs up at the manufacturing divisions

Orders on hand at year-end added up to €7.4 billion (down 1 percent). Apart from one Printing Machines company, all the production companies posted increases and hence the MAN Group as such has a much higher workload than a year ago.

Order backlog by division*
€ million

	12/31/2003	%	12/31/2002	%
Commercial Vehicles	1,409	19	1,352	18
Printing Machines	847	11	904	12
Diesel Engines	1,003	14	870	12
Turbomachines	450	6	372	5
Further Industrial Holdings	1,049	14	1,009	13
Industrial Services	2,186	30	2,459	33
Financial Services	657	9	653	9
Interdivisional	(238)	(3)	(164)	(2)
	7,363	**100**	**7,455**	**100**

* MAN Group excl. the discontinued SMS Group operations

Headcount again crimped by restructuring efforts

At December 31, 2003, the MAN Group employed a workforce of 64,158 or 2.3 percent down compared with December 31, 2002 (excluding the SMS Group). Like-for-like, the numbers dropped by 1,949 or 2.9 percent. At the domestic companies, headcount slipped by 1,881 or 4.3 percent to 41,497; at the foreign by 68 or 0.3 percent to 22,661. Those companies undergoing surgery have since 2003 shed altogether 2,706 persons. These losses contrast with gains of 771 from the setting-up of commercial vehicle production in Turkey and Poland as part of the general efforts to relocate bus building operations.

For more details, refer to the Employees chapter of this annual report (pages 52 et seq.).

Earnings

Much improved earnings

Compared with 2002, the MAN Group's results of operations have improved appreciably, mainly due to Commercial Vehicles that has successfully readopted its erstwhile profitability practice. After a lengthy period in the red, Buses posted a black EBIT one year earlier than expected. Trucks, too, again improved its earnings (as budgeted). A loss was posted by Printing Machines on account of much poorer order and workload figures plus meager margins. As announced, the results at Diesel Engines and Industrial Services were short of the good prior-year figures while Turbomachines ratcheted up its earnings. Further Industrial Holdings and Financial Services both delivered highly encouraging performances.

EBIT of the MAN Group's continued operations (i.e., excluding the SMS Group) reached €443 million (up 13 percent from €391 million). EBT improved by 23 percent from €213 million to €261 million, while the net interest expense of €182 million virtually remained at the prior-year level of €178 million.

Despite the higher EBT, tax expense shrank from €72 million to €69 million, the tax load ratio slumping from 33.8 to 26.4 percent, mainly the consequence of a tax credit relating to another period.

The net income earned by the continued operations came to €192 million, up 36 percent from €141 million, and boosted EpS from €0.91 to €1.25 (up 37 percent).

MAN Group performance*
€ million

* MAN Group excl. the discontinued SMS Group operations

Stake in SMS sold

With economic effect as of October 1, 2003, MAN AG sold and transferred its 51-percent stake in SMS AG to the Weiss family, the owner of the remaining 49 percent. The divestment was effected in two lots of 25.5 percent each, the first being transferred in fiscal 2003. For the remaining 25.5 percent, reciprocal put and call options have been negotiated, exercisable by MAN as from December 31, 2007. The gain from the disposal of the SMS stock is used to strengthen equity and as prudential reserve. €50 million thereof, transferred to MAN AG's reserves retained from earnings, has been recognized in the Group's EBT for 2003. MAN's consolidated financial statements 2003 include the SMS Group (albeit for the first nine months only) while the other reports on the MAN Group's business and performance do not, whether for 2003 or 2002.

Soaring EBT

The consolidated financial statements include the SMS Group's EBT up to the date of its disposal at a red €8 million (down from a black €6 million) and a capital gain of €50 million from selling the SMS stock. In the financial statements including SMS, the MAN Group's EBT soared to €303 million, up 38 percent from €219 million.

Tax expense sank to €68 million (down from €72 million), the tax load ratio to 22.3 percent, one favorable effect being the tax-exempt sale of the SMS stake. Net income surged 60 percent to €235 million (up from €147 million).

Earnings per share according to IAS 33 took a 67-percent leap from €0.92 to €1.54. In addition to the EpS of €1.25 from continued operations (up from €0.91), another €0.29 (up from €0.01) was contributed by the SMS Group's 9-month EBT and the divestment of the SMS stock.

Cash dividend per share stepped up to €0.75

MAN AG's net income for fiscal 2003 amounted to €180 million (up from €108 million), €50 million thereof being the capital gain from the disposal of the SMS stake and transferred to the reserves retained from earnings. Altogether €70 million was transferred from net income to these reserves, bringing net earnings to €110 million. The Executive and Supervisory Boards will propose to the annual stockholders' meeting to distribute a cash dividend of €0.75 per share (up from €0.60).

MAN AG's annual financial statements, prepared in accordance with German Commercial Code ("HGB") regulations, are published separately; they may be obtained from MAN AG or are downloadable from the Internet at: www.man-group.com

Returns show a sharp improvement

Compared with previous years, the MAN Group's returns showed a sharp improvement in 2003 although still well short of our self-defined benchmarks which we last achieved in fiscal 1999/2000.

The return on capital employed (ROCE), whose target level we set at an average 15 percent over one economic cycle, moved up in 2003 from 7.1 to 8.3 percent, in Industrial Business (which excludes the high-capital financial services) even to 8.9 percent (up from 7.2). On the one hand, the better performance is attributable to the higher EBT before interest expense—up from €324 million to €373 million—and, on the other, to the lower capital employed as financial liabilities were whittled down. In the financial statements that include the effects on earnings of the SMS Group (which retired from the consolidation group as of September 30, 2003) and of the sale of the SMS stake, ROCE surged to 8.7 percent (up from 6.9).

The return on sales (ROS) was stepped up from 1.5 to 1.9 percent or, when including SMS, from 1.4 to 2.0 percent but again failed to hit the 5-percent benchmark set for our manufacturing divisions.

MAN Group rates of return*
%

* MAN Group excl. the discontinued SMS Group operations

ROCE by division
%

	2003	2002
Commercial Vehicles	9.4	4.3
Printing Machines	(4.4)	4.6
Diesel Engines	11.4	16.8
Turbomachines	12.4	11.7
Further Industrial Holdings	7.9	3.4
Industrial Services	15.0	14.8

Earnings by division

– Earnings at **Commercial Vehicles** surged in 2003, EBIT virtually doubling from €102 million to €203 million, EBT shooting from €13 million to €121 million. ROCE jumped from 4.3 to 9.4 percent, ROS from 0.2 to 1.8 percent.

Most of the gain is to the credit of the Bus unit that negotiated its €77-million turnaround a year earlier than earmarked with a black EBIT of €5 million (up from a red €72 million). Provoking this improvement were the rigorous enactment of the restructuring programs involving a relocation of high-labor production to Turkey and Poland and the use of shared platforms for MAN and NEOPLAN products. Likewise impacting were our policy of desisting where possible from low-profit contracts and the savings achieved by converging and slimming down administrative functions within the bus operations.

With an EBIT of €198 million (up from €174 million), Trucks, too, again enhanced its operating result thanks to the sustained impact of the productivity improvement schemes introduced at the production plants starting from 2001. Re-profiling the product range, broader parts commonality, and trimmed materials and warranty costs have combined to make our vehicles more profitable despite the hurdles posed by the weak pound sterling and US dollar.

– With a negative EBIT of €26 million (down from a positive €19 million) and an equally red EBT of €37 million (down from a black €10 million), **Printing Machines** failed to come up to the expectations held at the start of fiscal 2003, even though a healthier Q4 did undo some of the damage compared with what had been feared during the earlier months. Negative were both ROCE at 4.4 percent (down from a positive 4.6 percent) and ROS at 2.4 percent (down from a positive 0.6).

Earnings before interest and taxes (EBIT) by division*
€ million

	2003	2002
Commercial Vehicles	203	102
Printing Machines	(26)	19
Diesel Engines	58	83
Turbomachines	29	30
Further Industrial Holdings	50	16
Industrial Services	73	74
Financial Services	86	84
Holding Company, Consolidation	(30)	(17)
EBIT	**443**	**391**

* MAN Group excl. the discontinued SMS Group operations

Web-Fed Machines closed the year with an EBIT of €30 million (down from €67 million), which given the hostile market environment and plunging sales (down by 28 percent) was a highly commendable performance. Thanks to the prior-year restructuring programs and additional steps taken to shrink workforce numbers at short notice to match slumping workloads, we managed to cushion some of the impact resulting from the sluggish order influx. Following the €5 million loss for 2002, Trading & Services broke even in 2003, here, too, the action taken to slim down capacities proving efficacious.

Sheet-Fed Machines showed a still red EBIT of €56 million (up from a negative €43 million). The losses would have been much steeper but for the measures introduced last year for the purpose of consolidating the Rhine/Main locations, reducing vertical integration in production, and improving internal work flows. Nonetheless, these latter still failed to offset the burdens accruing from poor capacity utilization, even fiercer price competition and weaker sales. Not included in the loss figures are expenses related to customer financing in the USA transacted by MAN Roland toward the end of the nineties. MAN AG has absorbed these burdens from the accruals recognized for this purpose.

– **Diesel Engines** delivered an EBIT of €58 million (down from €83 million) and an EBT of €44 million (down from €68 million). Its ROCE dipped from 16.8 to 11.4 percent and ROS from 4.9 to 3.4 percent. Earnings from two-stroke diesel engines were again robust on account of flourishing after-sales and licensing business, this unit posting an EBIT of €41 million (down from €45 million). In the market for four-stroke medium-speed engines, lower sales, poorer margins due to the euro gains over the dollar and some idle capacities in the course of year combined to squeeze EBIT to €27 million (down from €54 million). Among the remaining units (together accounting for a negative EBIT of €10 million—improved from a negative €16 million in 2002—the four-stroke high-speed engines stayed in the red. Steps taken to downscale production were concluded and will certainly help to defuse these problems in 2004. Turbocharger business again made good progress.

Result from ordinary operations by division*
€ million

	2003	2002
Commercial Vehicles	121	13
Printing Machines	(37)	10
Diesel Engines	44	68
Turbomachines	23	22
Further Industrial Holdings	40	10
Industrial Services	65	85
Financial Services	26	17
Holding Company, Consolidation	(21)	(12)
Result from ordinary operations	**261**	**213**
Income taxes	(69)	(72)
Net income	**192**	**141**
Earnings per share in €	1.25	0.91
Cash dividend in €	0.75	0.60

* MAN Group excl. the discontinued SMS Group operations

– At €23 million, EBT of **Turbomachines** was marginally above the prior year's €22 million, EBIT at €29 million just short of the previous year's €30 million. As the year advanced it proved possible to make up for poor profitability from new-equipment contracts at the start of the period. ROCE reached 12.4 percent (up from 11.7) and ROS 4.0 percent (down from 4.2).

– EBT at **Further Industrial Holdings** soared from €10 million to €40 million, EBIT hiking from €16 million to €50 million, the improvements being due, on the one hand, to MAN Technologie that shrank its year-earlier €39 million loss to a mere €19 million, albeit the bottom line is still highly infected by idle capacities due to delays in the placement of the contract for ARIANE 5 components and investments in cost-pruning programs. The remaining subsidiaries once more delivered solid earnings: RENK raised its EBT from €19 million to €20 million, Schwäbische Hüttenwerke from €10 million to €15 million. MAN DWE's EBT more than doubled from €5 million to €13 million due to very high sales. In all, ROCE at Further Industrial Holdings came to 7.9 percent (up from 3.4) and ROS to 4.8 percent (up from 1.2). As in the previous period, RENK, MAN DWE and SHW were well in excess of our minimum requirements while MAN Technologie closed the year with a negative performance.

– Earnings at **Industrial Services** were severely battered by loss-making contracts, idle capacities and restructuring expenses in the DSD Group. The DSD Stahlbau Group is undergoing extensive surgery; our plans are to contribute it to an industrial alliance. Some relief came from rising sales and higher profit contributions from facility construction and contracting business. In all, EBT slumped from €85 million to €65 million, EBIT steadying at €73 million (down from €74 million). Ferrostaal's net interest result was reduced by the lower interest rate level and the absence of the 2002 one-off income. ROCE at Industrial Services once more almost equaled the high 2002 figure (15.0 versus 14.8 percent), ROS reached 2.3 percent (down from 2.9).

– EBT at **Financial Services** progressed from €17 million to €26 million, chiefly on account of improvements in customer financing transactions and the absence of any one-off burdens. Pretax ROS jumped from 16.1 percent a year ago to 20.3 percent in 2003.

– **Holding Company, Consolidation** subsumes MAN AG and the consolidation entries at group level. EBT remained in the red at €21 million (up from €12 million).

Return on sales (ROS) by division
%

	2003	2002
Commercial Vehicles	1.8	0.2
Printing Machines	(2.4)	0.6
Diesel Engines	3.4	4.9
Turbomachines	4.0	4.2
Further Industrial Holdings	4.8	1.2
Industrial Services	2.3	2.9

Finance, asset and capital structure

The MAN Group's central financing system

MAN AG is responsible for financing and funding the MAN Group (including its operating subsidiaries). These functions cover the provision of cash for current operations and capital expenditures, the agreement on adequate credit facilities with banks, and the hedging of business transactions. For instance, since December 2000, MAN AG has had a five-year syndicated credit facility of €1.5 billion at its disposal of which €300 million was utilized at December 31, 2003.

In November 2003, MAN AG launched a seven-year, 5.375-percent €300 million eurobond issue through MAN Financial Services plc, Swindon, UK.

A corporate cash management system within MAN AG controls liquidity and the investment of surplus cash & cash equivalents on behalf of German and foreign MAN subsidiaries.

MAN AG hedges currency and interest rate risks on behalf of its subsidiaries. For details, see Note (20) to the consolidated financial statements, pages 136/137.

MAN Financial Services extends its services to customers and subsidiaries, basically by factoring, as well as by customer and investment financing. This company's business focuses on leasing commercial vehicles to customers. In order to refinance leasing expenditures, an around €500 million slice of the portfolio is sold to nongroup financing firms on a revolving basis.

SMS divestment without major impact on net liquidity

MAN's finances made solid progress in 2003. As of December 31, 2003, the Group's liquidity—defined as the balance of cash and cash equivalents, other short-term securities and financial liabilities—resulted in a net liability of €439 million (up from €261 million in 2002). The higher balance is solely attributable to the divestment of the SMS Group with its net liquid assets of €764 million as of September 30, 2003. In Industrial Business, we boosted net liquid assets by €497 million to €815 million. Financial Services ratcheted down its refinancing volume by €71 million to a net liability of €1,254 million.

Net liquid assets
€ million

	12/31/2003	12/31/2002
Industrial Business	815	318
Financial Services	(1,254)	(1,325)
SMS Group	–	746
MAN Group	**(439)**	**(261)**

Cash flow in Industrial Business greatly augmented

The comments below on the MAN Group's cash flow statement and balance sheet structure are based on the 2-segment financial statement breakdown into Industrial Business and Financial Services, as shown in the consolidated financial statements on pages 96 et seq. Besides the manufacturing divisions, Industrial Business also includes Industrial Services (Ferrostaal Group) and MAN AG as holding company.

The cash flow from the operating activities of **Industrial Business** surged from €432 million to €679 million. With cash earnings from net income virtually unchanged at €585 million (down from €594 million), we slashed the net capital employed in inventories, prepayments, trade receivables and trade payables by another €117 million after we had already lessened it in 2002 by €103 million. Moreover, while utilizing €95 million of accruals the year before, we succeeded in recording a cash inflow of €23 million from additional provisions during fiscal 2003.

Net cash of €136 million was used in investing activities, comparing with €314 million a year ago. €322 million (down from €346 million) went into new tangible and intangible assets; the drift-down was achieved by a higher proportion of capital expenditures being leased intragroup. For capital outlay details, turn to pages 37 et seq. The cash inflow from divestment jumped from €75 million to €198 million.

The net cash of €72 million used in financing activities (up from €35 million) reflects the dividend payout at an unchanged €93 million and a cash inflow from internal distributions to MAN AG of €21 million (up from €17 million). The year before saw an additional cash inflow from the conversion of preferred into common stock and an outflow from intragroup capital increases. Including the effects of exchange rate variations, net liquid assets of Industrial Business were improved by €497 million to €815 million.

The cash flow from the operating activities of **Financial Services** rose to €227 million (up from €197 million), basically due to a lower financing volume of trade receivables. Also a lower financing volume (in the UK) was the reason why the net cash used in investing activities slid from €218 million in 2002 to €181 million in the year under review. Including the intragroup dividend payout of €21 million (up from €11 million), exchange rate changes and newly consolidated companies (resulting in a net €46 million relief), total net financial debts of Financial Services inched down by €71 million to €1,254 million.

Cash flow statement based on net liquid assets
€ million

	Industrial Business		Financial Services	
	2003	2002	2003	2002
Net liquid assets at Jan. 1	**318**	**201**	**(1,325)**	**(1,353)**
Cash flow from operating activities	679	432	227	197
Cash flow from investing activities	(136)	(314)	(181)	(218)
Cash flow from financing activities*	(72)	(35)	(21)	49
Cash-based change in net liquid assets	**471**	**83**	**25**	**28**
Other changes in net liquidity	26	34	46	–
Net liquid assets/(net financial debts) at Dec. 31	**815**	**318**	**(1,254)**	**(1,325)**

* excl. changes in securities and financial liabilities

Capital employed again pruned

Breaking down the balance sheet into Industrial Business and Financial Services shows the disparate asset and capital structure of these operations.

Net of non-interest liabilities, the capital tied up by Industrial Business in operating assets totaled €3.5 billion (down from €3.7 billion), the shrinkage being substantially ascribable to the net capital employed in inventories and receivables, which we managed to pare by €0.3 billion to €2.8 billion. Fixed assets were downsized by €0.1 billion to €2.3 billion (from €2.4 billion). Including the net liquidity of €0.8 billion (up from €0.3 billion), the net segment assets of Industrial Business total €4.3 billion (up from €4.0 billion).

These net segment assets are funded by equity of €2.6 billion (up from €2.4 billion) and pension accruals of €1.7 billion (up from €1.6 billion). The cover ratio of fixed assets to equity bettered from 99 to 114 percent, thanks to the smaller share of internally funded tangible assets and to higher equity.

Financial Services funds net segment assets of €1.4 billion (down from €1.5 billion), including an internally financed portfolio of €0.7 billion of manufacturer leases (down from €0.8 billion) and €0.6 billion of financed receivables (down from €0.7 billion). The total is refinanced at €129 million (up from €124 million) by equity and €1.25 billion (down from €1.3 billion) by debt.

Asset and capital structure
€ million

	Industrial Business		Financial Services	
	2003	2002	2003	2002
Assets				
Fixed assets	2,335	2,443	965	965
Net capital employed in inventories, prepayments received and trade receivables/payables	2,532	2,806	474	549
Current accruals	(1,564)	(1,478)	(32)	(30)
Other working capital	170	(86)	7	(6)
Operating assets	**3,473**	**3,685**	**1,414**	**1,478**
Net liquidity	815	318	–	–
	4,288	**4,003**	**1,414**	**1,478**
Capital				
Equity	2,655	2,422	129	124
Pension accruals	1,679	1,640	2	2
Deferred taxes	(46)	(59)	29	27
Net financial debts	–	–	1,254	1,325
	4,288	**4,003**	**1,414**	**1,478**

Value added

The MAN Group outputted an operating performance of €14.0 billion in 2003 (down from €14.2 billion); the 1-percent decline was largely caused by lower sales. The third-party input expended on the Group's operating performance came to €10.1 billion (down from €10.5 billion). The out-of-line decrease in the cost of materials is essentially attributable to the cost-paring program, mainly within Commercial Vehicles.

The value added by the companies of the MAN Group represents their net output, corresponding to €3.9 billion in 2003 (up 4 percent from €3.7 billion). The improvement was primarily due to the overall upgraded gross margin, up from 17.6 to 18.5 percent.

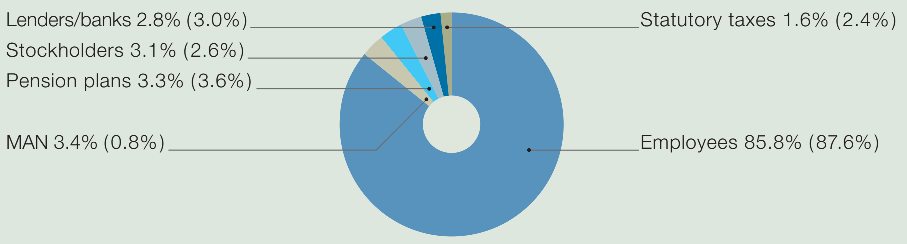
As shown by the distribution of the value added by MAN and as usual, the lion's share of €3.3 billion (virtually unchanged) or 85.8 percent (down from 87.6) went to our employees. Another 3.3 percent (down from 3.6) was used for pension plans, i.e., in the form of expenses for newly acquired entitlements and interest on pension accruals. Lenders/banks from which the MAN Group sourced its debt accounted for 2.8 percent (down from 3.0), the Treasury for 1.6 percent (down from 2.4) in the form of statutory taxes, and the stockholders for another 3.1 percent (up from 2.6) in return for the equity they provided. Including deferred taxes, 3.4 percent was left for MAN (up from 0.8).

Value added by the MAN Group*
€ million

	2003	%	2002	%
Net sales	13,546	97	13,850	98
Other operating income, interest/investment income	490	3	325	2
Total output	**14,036**	**100**	**14,175**	**100**
Cost of materials	7,332	52	7,843	55
Amortization/depreciation	525	4	599	4
Other impersonal expenses	2,312	16	1,994	15
Total input	**10,169**	**72**	**10,436**	**74**
Value added	**3,867**	**28**	**3,739**	**26**

* excl. the discontinued SMS Group operations

Distribution of value added
Value added: €3.9 billion = 100%



Research & development

Driven by materials technology

Engineering the Future—this is more than merely the MAN Group's slogan, it's a self-set benchmark day for day targeted by over 4,000 employees working in our R&D departments. Improving performance, reducing weight, consumption, and emissions, lowering costs—these are the essential criteria only achievable by using state-of-the-art technologies. Among these latter is meanwhile electronics which has joined classical mechanical engineering and automotive manufacture as core capabilities at MAN R&D. Meriting special mention in this respect is materials technology since this is the only approach when it comes addressing ever more complex demands placed on our products—both with respect to metallic materials and plastic products.

Plastics are increasingly finding their way into commercial vehicle manufacture. Talented at uniting weight, cost, corrosion resistance and—increasingly—recyclability benefits, plastics can be used for building highly complex, multifunctional components. Most cab parts meanwhile consist of polymers, inside and out, the same applying to the large parts hung onto the vehicle frame, the bumpers, the side panels, the fenders. Other potentials for plastics we identify in the areas of cooling system, drive train, electrical, electronic, pneumatic systems, the frame and the chassis.

Developed for around €200 million over the past four years and unveiled to the general public in February 2004, the new D20 common rail diesel is a typical instance of materials' predominance. Its crankcase consists of high-end low-weight vermicular cast iron capable of tolerating intense ignition pressures. The add-on parts are likewise made of lightweight plastics and aluminum for overall weight savings.

Unlike their commercial vehicle cousins, large diesels normally run on heavy oil which is only suitably fluid at elevated temperatures, moreover contains abrasive constituents and is injected at high pressures. The injection systems, therefore, are exposed to punishing stresses. Our response is to use hard-wearing, corrosion-resistant materials such as sintered carbides and plasma coatings. Moreover, such engineering environments not only call for special materials, the corresponding manufacturing techniques need to be refined, too.

The range of materials used to manufacture the individual cylinders on the printing machine stretches from conventional steel via invar steel and CFRP to ceramic coatings.

Similarly important is what our own customers experience when using our products, such information being systematically infused into our product development efforts. A case in point: such an in-service development process at Turbomachines has exploited customer feedback to extend gas turbine longevity through new materials and surface coatings.

R&D spending in 2003 added up to €520 million (down from €532 million). The manufacturing divisions again spent 4.6 percent of sales. Despite the necessary retrenchments in various areas of the Group, we did not cut back on our R&D activities of which €346 million (down from €356 million) was financed from our own funds. Expenses of €174 million (down from €176 million) were incurred for contract-related R&D activities and projects subsidized or sponsored by the public sector. Some 40 percent of the Group's own R&D funds went toward basic research and the development of new products, the rest was devoted to the ongoing improvement of, and addition to, current product ranges.

The R&D departments of the MAN companies employed in 2003 an average of 4,117 persons (up from 4,097).

Research and development*
€ million

	2003	2002
R&D outlay	520	532
in % of sales by manufacturing companies	4.6	4.6
internally funded R&D	346	356
R&D headcount (annual average)	4,117	4,097

* MAN Group excl. the discontinued SMS Group operations

Capital expenditures

Focus on high-margin components

2003 saw a repeat of our policy of measured expenditures as launched the year before. Additions to tangible and intangible assets totaled €402 million (up from €398 million). The lion's share of €187 million was seized by Commercial Vehicles which slightly upped its spending to allow for the pending market rollout of the D20 new engine generation. Printing Machines and Diesel Engines both tightened their purse strings now that the production structure improvement project is complete.

Once again, most of the expenditures went toward the rationalization and modernization of existing production facilities. In order to best exploit our manufacturing structures we are focusing our funds on high-margin components embodying extra know-how. Nürnberg and Salzgitter saw the installation of production plant for the new generation of commercial vehicle engines. Work was completed on restructuring the British production plants for the 4-stroke high-speed diesels. Part of sheet-fed machine production was relocated and capacities were downsized.

Almost all of our companies meanwhile operate within a web of international locations. Bus, in particular, again buttressed its production facilities in Poland and Turkey. Together with a Chinese associate a joint venture for a turbocharger (used in large diesels) factory was set up in Shanghai. By expanding our locations, sales organizations and service branches outside of Germany we have succeeded in gaining footholds and thus seizing cost advantages within nascent markets. This is why in recent years we have invested some €150 million in the EU entrants, specifically Poland, Hungary, the Czech Republic, in sales and service facilities.

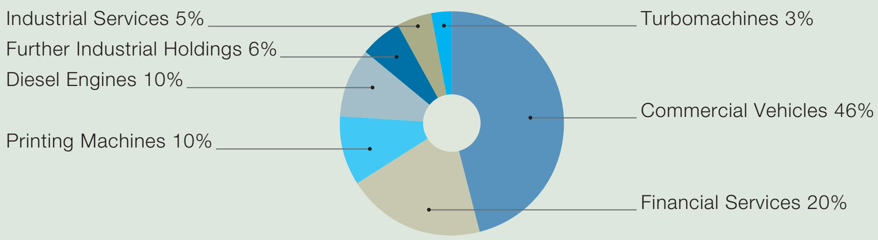
Capital expenditures*
€ million

	2003	2002
for (in)tangible assets	402	398
for assets leased out	245	472
for consolidated subsidiaries	8	14
for other financial assets	10	27
	665	911

* MAN Group excl. the discontinued SMS Group operations

Our IT outlays are designed to both extend and upgrade our existing systems and networks, one advantage being the closer involvement and interaction between our customers/their operating equipment and our own facilities. Integration of this nature allows us to provide state-of-the-art services such as telemonitoring, remote/online diagnosis and coordinated parts management. Again increased was the number of vendors integrated into our procurement mechanisms through the MAN2B e-business platform. Once more we multiplied the related cost savings through pooling our buying volumes.

Capital expenditures by division for (in)tangible assets*



* MAN Group excl. the discontinued SMS Group operations

Environmental and safety management

We successfully continued with the implementation of our environmental protection targets and the establishment of eco-management systems at the production locations. In the preceding years, altogether eleven central European locations of the MAN Group had set up the relevant environmental standard. Following these, the NEOMAN Bus Group along with the Pilsting and Salzgitter locations, MAN Turbomaschinen together with the Zürich and Berlin locations as well as DSD Industrieanlagen GmbH, Essen, were all approved according to DIN EN ISO 14001 last year.

An Integrated Management System for Environmental Protection, Safety and Quality sharing the same high standards and principles is being introduced at MAN Nutzfahrzeuge AG. This is tailored to the corporate mechanisms and embraces quality assurance, safety and environmental protection directly as supporting processes. As a consequence, all these different aspects may now be reviewed and rated in just one certification procedure, which in turn yields cost savings.

Despite severe economic pressures, we still abide by our responsibility in matters of environmental protection. As a consequence our development efforts take full account of the principles of environmental soundness alongside any insistence on workability, economy, and safety. In the development and design of, e.g., our commercial vehicles, diesel engines or printing machines, such aspects as environmental impact and recyclability are considered and analyzed right from the very start. Our own ecological efforts aim at lower energy consumption, reduced emissions, less noise, a long service life, and easy value recovery. The period under review saw a number of expenditures with substantial pro-environmental impact. One example is the installation of a heat recovery unit at the smelting furnace of MAN B&W Diesel. The heat emitted by the electric smelting furnace preheats the air that goes into the ventilation system of the foundry shops. This not only saves in terms of district heating, it also reduces CO_2 emissions. In the reduction of these emissions (as required by the Kyoto protocol) emissions trading is one of the instruments for achieving this goals. However, only a few of our production units will be affected by emissions trading. In our view, this is the outcome of our years of rigorously exploiting savings potentials and the installation of economic state-of-the-art plant and equipment.

The operation of production plant is closely linked to risk management procedures. We are doing our utmost to make sure that any such risks are detected in good time and tackled with the necessary circumspection so that any potential repercussions are contained.

As part of our risk management efforts we have developed a fire prevention & protection system which has already been set up at MAN Nutzfahrzeuge and MAN Roland. Formulated in a central set of guidelines, this is designed to be introduced throughout the MAN Group.

Our own Sustainability Report details the many and varied activities of the MAN Group in matters relating to society and the environment while maintaining its self-imposed economic goals (available at www.man-group.com or from MAN AG).

Risk management—emphasis on early warning

Seizing opportunities yet identifying early on, evaluating and containing risks, this is at the very heart of business management. A global player, the MAN Group is exposed to a series of risks emanating from its national and international arenas. During the period under review, we again critically reviewed and fine-tuned our existing systems and instruments for coping with such risks.

Ongoing development

The MAN Group's operating divisions supply a variety of products and services, which in turn entails involvement in dissimilar markets and business processes. An effective enactment of a risk management system must therefore be adapted to the needs of the respective divisions. MAN's own risk management manual, which was thoroughly revised in 2003, states the applicable parameters, and constitutes the overarching reference work for the individual risk management modules of the MAN companies. Our groupwide risk management system is reviewed annually by both MAN's internal auditing department and by the statutory auditors.

The non-German companies have been integrated into the risk management system, the ultimate aim being to ensure that the strategic and operational business risks confronting the Group, either at home or abroad, are dealt with according to strictly the same criteria. The non-German companies are also being involved in the sharing of risk-relevant experience and information among the various divisions.

Our statutory auditors conducted their examination of the early risk identification system (ERIS) in 2003, too, while, at the same time, taking a closer look at a number of special subjects such as risk management mechanisms applied when signing complex sets of agreements, specifically risk analysis and communication, efficient claim management, and risk hedging for offset obligations. The insight obtained from these reviews is being siphoned into our system.

Also subject to review were the organization and implementation status of current turnaround projects: MAN Nutzfahrzeuge, MAN Roland's sheet-fed machines, MAN Technologie's aerospace, and the loss-makers MAN B&W Diesel Ltd. and DSD Stahlbau.

Risk equilibr1ium within the Group

Due to its heterogeneous makeup, the MAN Group finds itself exposed to many different types of risk. Business cycles and the related fluctuations in demand on the various markets pose the chief sources of risk for our companies. However, this inherent diversity also harbors the advantage of risk balancing since, in particular, the sectorial, operational, supplier, workforce, and legal risks of the individual operating subsidiaries are contingent upon dissimilar economic cycles and conditions. This mechanism of diversity once again proved itself in fiscal 2003. In terms of risk profile, we can therefore talk about the MAN Group having a robust constitution.

It is the management of each operating division that carries responsibility for mapping out workable and effective early-warning risk detection systems. A close, standardized and regular sharing of information with MAN AG makes sure that the prescribed risk philosophy is properly enacted and that any risk-relevant issues are announced to the holding company as and when they surface.

Several times a year, MAN AG's Controlling regularly reviews the business plan targets laid down during the corporate planning processes and the rolled-forward budget projections. These updates are based on the current order intake, workload, and earnings situation. Major variances are reported to the Executive Board immediately and in detail. The same applies to risks related to special projects such as M&As and disposals. Close attention is given to the handling of megaprojects by our operating units who keep us regularly briefed on such subjects, primarily regarding possible adverse variances versus initial costings, such trends triggering the appropriate reporting obligations to MAN AG so that counteraction may be adopted in good time.

Risks of a more technical character are assessed by MAN AG's Technology department which keeps close contact with the subsidiaries. The latter's expenditure and R&D plans, in particular, are analyzed and coordinated, with particular emphasis on maintaining the technical competitiveness of our products and services as well as the efficiency of the production processes. As part of the annual corporate planning process, technology-related risks are also closely scrutinized and assessed.

The MAN Group's liquidity is managed by MAN AG's Finance. Within the Group, credit limits are agreed with the individual companies, these being tailored to their financial needs and financial parameters. MAN AG's Finance controls, and hedges against, groupwide credit, liquidity, interest rate and currency risks. In analogy to banking practice, the functions of trading, settlement and control of financial transactions are strictly segregated.

Another key component in our risk management system is the MAN Group's Internal Auditing. The groupwide auditing of internal control and existing early-warning systems at the various companies ensures that any deficiencies and weaknesses are spotted and eliminated. Also forming a part of the groupwide information mechanisms is Corporate Communication which, in this way, has been enabled to analyze and assess communication risks within the framework of a preventive crisis communication system.

Trends in the new fiscal year

New D20 commercial vehicle engine unveiled

In February 2004 MAN Nutzfahrzeuge unveiled to the general public its all-new D20 engine. The fruit of several years' development work, the new series comes with numerous innovative highlights. Consuming up to 5 percent less fuel, it is designed to comply with future EURO 4 and EURO 5 emission thresholds. It also weighs 100 kg less than its predecessor. As from April 2004, the D20 will be available as a standard product. We expect this new engine series to provide additional advantages over its rivals.

MAN Technologie to focus on aerospace

MAN Technologie intends to reduce its business to the existing aerospace activities which will be continued until a suitable partner has been found. The additional restructuring measures extend beyond the capacity adjustments implemented so far and will entail further workforce retrenchments. The remaining activities, especially the mobile bridges and antennas/mechatronics, are presently being spun off into companies of their own retroactively as of January 1, 2004. The plan is to stash these somewhere else within the MAN Group or else transfer them to third parties. Our medium-term intent is for the aerospace business to be contributed to some suitable joint venture.

Restructuring efforts continuing

The MAN Group's ongoing restructuring programs are continuing according to plan. Among the focal points are the bus operations where, now that production plants have been set up in Poland and Turkey, the workforce retrenchment agreements are being implemented at the Salzgitter plant. By March 1, 2004, Salzgitter will have shed 245 employees. Between December 31, 2000, and mid-2005 (when all restructuring programs will have been completed), the NEOMAN Bus Group's domestic workforce will have shrunk from 4,676 by some 2,000.

The sheet-fed printing machine unit is pressing ahead with downscaling efforts in the Rhine/Main region. By December 31, 2004, this unit is aiming to part with around another 3,000 employees, over 30 percent fewer than the summer 2001 all-time high.

Launched in 2003, the shake-up of the loss-making DSD Group is proceeding according to plan in 2004. In the industrial plant unit, the industrial facilities subunit is being reshaped and spun off while the plant construction subunit is joining Ferrostaal AG's facility construction and contracting unit. Stahlbau is being spun off into four separate operations for steel building construction, steel bridge construction, hydraulic steel structures, and constructional steelwork assembly all operating under the roof of DSD Stahlbau. Our medium-term plans are to contribute DSD Stahlbau to a midsize joint venture.

Forecast

Congenial economic environment

At the onset of 2004, the economic environment is generally upbeat, with early indicators pointing to ongoing expansion by the international economy. In the United States, demand is likely to grow at a more measured pace, albeit the economy is definitely still likely to point upward. Asia is expected to continue to surge, although the Chinese economy will probably proceed at a more muted rate. Unable to catch up in 2003, even Europe is likely to develop greater business momentum, in the midrange buttressed by EU enlargement as of May 2004. As to Germany, most of the pundits are predicting a GDP gain of 1.7 percent. As before, exchange rate parities do present a certain risk potential for the global economy. If the dollar stays weak, this may well cripple the competitiveness of European business.

Fiscal year off to a flying start

With an order intake worth €2.4 billion (up 24 percent) and sales of €1.7 billion (up 7 percent), the MAN Group was off to a flying start in the first two months of fiscal 2004. The added orders resulted from flourishing current operations (excluding megaorders), which were up by 13 percent to €2.1 billion, as well as from the thriving megaproject business at Industrial Services and Commercial Vehicles. Except for Printing Machines, all MAN divisions have stepped up their performance, mostly at two-digit rates. This uptrend may not continue throughout the fiscal year, it is true, but it does buoy up our confidence in MAN's 2004 overall performance.

Expectations by divisions

Given these parameters, most of the divisions are expected to show gains in 2004 as detailed starting from page 68 and summarized in the following.

– Having successfully rebuilt their bus operations and improved their cost structures, both **Commercial Vehicles** units are strongly positioned for 2004, with advances expected from the launch of innovative truck and bus products and our new D20 engine. Since the Western European economy is presently beginning to brighten, we are upbeat as to fiscal 2004 and reckon that we can once again extract an even larger EBT from a business volume that is slightly higher than last year's.

– Demand for **Printing Machines** is likely to recover somewhat, with additional momentum being generated by the new sheet-fed lineup and the drupa fair in May 2004. Hence, we expect order intake and sales to top the year-earlier volumes. Because of the still generally weak economy, squeezed margins, and with the cost savings from the restructuring schemes not yet impinging over the entire 12 months, earnings will still not be satisfactory; despite this, given the anticipated pick-up in this sector of the economy, we do reckon that earnings will slightly rebound.

– As to **Diesel Engines**, our assessment of the market is that shipbuilding will remain buoyant and that order intake will continue at the high level of 2003. With order books building, sales and workload are set to advance. Given the circumstances and the measures already taken to sharpen our competitive edge, we expect a much improved EBT for the year.

– **Turbomachines** is budgeting order intake at the level of 2003 and, in view of the tall backlog of orders, a sharp uplift in sales for 2004. Given these premises, EBT may well show a pronounced gain.

– **Further Industrial Holdings** (apart from MAN Technologie) should generally match its 2003 business volume. At MAN Technologie, business will largely depend on whether the urgently needed follow-up contracts for the ARIANE 5 program to continue the European aerospace program, are in fact placed. In terms of EBT, this division is likely to repeat the figure for 2003.

– **Industrial Services** is expecting an improvement to the worldwide economic climate with rising spending propensity, also for large scale plant construction projects. Given a stable market, it should be possible to generate additional business volume. Depending on the situation at DSD and the restructuring programs initiated there, we are targeting an EBT at the level of 2003.

– For 2004, MAN **Financial Services** is predicting a business volume and EBT equal to 2003.

For the **MAN Group** as such, we expect 2004 to close with a somewhat increased volume of business: order intake in the region of €13.8 billion to €14.5 billion (up from the €13.7 billion of 2003). Accordingly, sales will total somewhere between €13,6 billion and €14.2 billion (up from €13.5 billion in 2003)

Forecast 2004

	2003	Forecast 2004
Order intake (€ billion)	13.7	13.8–14.5
Net sales (€ billion)	13.5	13.6–14.2
Additions to tangibles and intangibles (€ million)	402	constant
R&D expenditures (€ million)	520	constant
EBT (€ million)	261	soaring

Present **plans envisage additions** to tangible and intangible assets in the order of 2003, with again production plant rationalization and modernization taking priority and Commercial Vehicles once more seizing the lion's share. The R&D budget for 2004 will be about the same as in 2003, refocusing on the further development of the new D20 commercial vehicle engine and additions to the truck and bus lineups. High up on the Printing Machine R&D agenda is the further automation of printshop work flows and additions to the small- and large-format sheet-fed machines; Diesel Engine research is looking into applications for common rail technology on the large 4-stroke engines and the new RK280 high-speed unit.

As to the Group's **financial position**, we will continue with our efforts to further reduce the capital tied up in operating assets and improve net liquidity at the operating companies. Financial Services will spread out into new terrain and tap the capital market for further expanding the selective refinancing of its transactions. For the time being we have not earmarked any sizable M&As for which, if necessary, we can resort to MAN's authorized capital of €188 million. Neither on the agenda are any major changes to MAN's legal format or the Group's administrative and organizational architecture.

Regarding the ROCE for Industrial Business and following the progress achieved in 2003, we intend this year to take another conspicuous step in the direction of our 15-percent minimum.

As to **earnings**, we are budgeting for the MAN Group a surge propelled by another hefty profit contribution from Commercial Vehicles, a rebound into the black by Printing Machines, and an earnings recovery at Diesel Engines. All told, we are expecting to substantially narrow any gaps between our benchmarks and reported performance. Whether or not we achieve this target will largely depend on the economic situation, no additional burdens from a rising euro, and the successful completion of the restructuring programs now underway.

MAN Shares, Corporate Governance

The weak state of the capital markets in 2002 persisted into the beginning of 2003. At that time, the uncertainty of future economic developments, as well as decisions pending in the sphere of national and international politics, were the main reasons for the lack of investor confidence. In March 2003, the mood changed on the international capital markets, and particularly on the German stockmarket. The hope of a global economic recovery, coupled with attractive share forecasts compared with other forms of investment, led to significant gains in share prices during the remainder of the year. In 2003, the DAX 30 recorded an overall rise of 37.1% and the DJEuroStoxx50 rose by 15.7%. The value of MAN's ordinary shares increased by 82.9%, making them one of the top three performers in the German Share Index.

MAN shares – top performers in the DAX 30

Key figures

	2003	2002
Earnings per share in €	1.54	0.92
Earnings per share in € excl. SMS Group	1.25	0.91
Cash dividend per share in €	0.75	0.60
Market capitalisation in €m	3,511	1,914
Ordinary shares		
Closing price in €	24.05	13.15
Highest price in €	24.15	30.25
Lowest price in €	12.09	10.65
Yield* in %	3.1	4.6
Gross yield** in %	90.3	(43.3)
Number in ’000	140,974	140,974
Preference shares		
Closing price in €	19.80	9.90
Highest price in €	20.49	26.10
Lowest price in €	10.30	8.20
Yield* in %	3.8	6.1
Gross yield** in %	109.8	(43.5)
Number in ’000	6,066	6,066
DAX yield in %	37.1	(43.9)
DJEuroStoxx50 in %	15.7	(37.3)

* Cash dividend based on closing price at 31 Dec.

** Based on reinvestment of cash dividend on the last trading day of the month in which the Annual General Meeting was held.

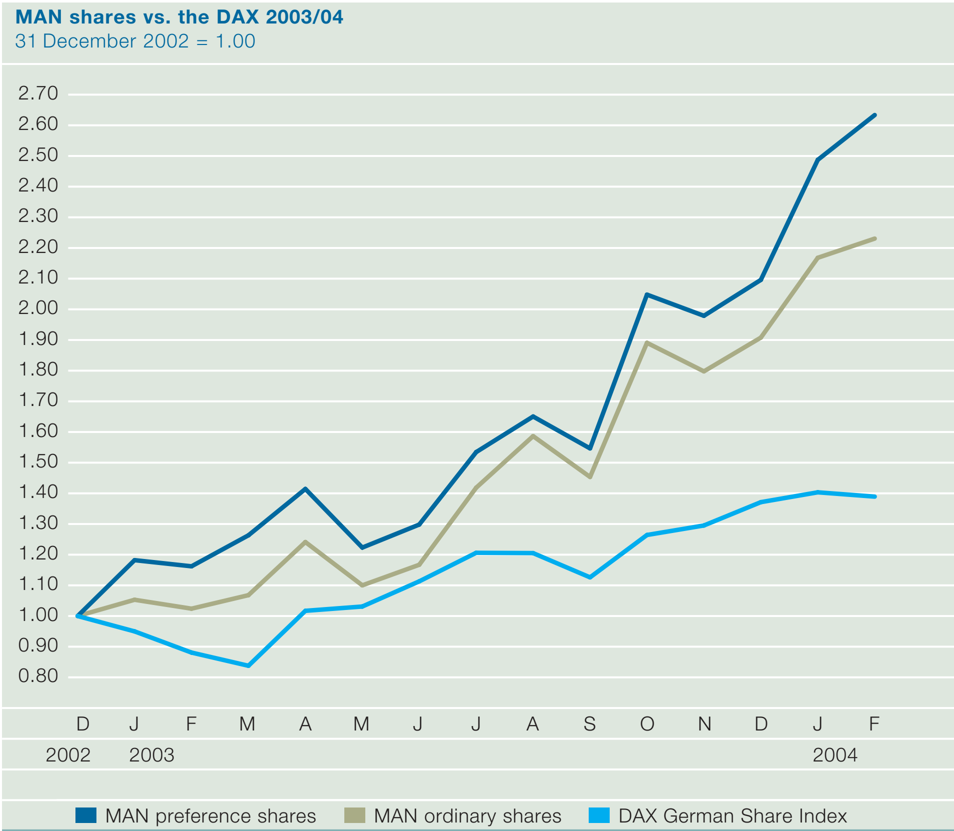
With a plus of 83%, MAN’s ordinary shares were one of the top three performers in the DAX 30 in 2003.

Marked recovery in share prices

In 2003, both classes of MAN shares performed significantly better than their reference index, the DAX 30, during three of the four stockmarket quarters. Only their second-quarter performance was weaker than the index. At this stage, investors were for the most part avoiding export-oriented companies, fearing enormous competitive disadvantages as a result of the sharp rise in the value of the European Community currency against the US dollar.

Throughout the entire second half of the year, MAN share prices developed largely independently of market trends. Market operators partially attributed this development to speculation on possible changes in MAN’s shareholders, especially during the third quarter, as well as to structural changes in the European commercial vehicles industry. In the fourth quarter however, the positive development in share prices was increasingly influenced by investor expectations of a global economic recovery. In the eyes of market operators, the MAN Group should benefit from the envisaged economic recovery, and more especially from a sustained increase in profitability as a result of the restructuring and cost-reduction measures previously implemented.

From a starting price of €13.15 on 31 December 2002, MAN ordinary shares gained €10.90 between 1 January and 31 December 2003 to reach €24.05. Over the same period, the market price for MAN preference shares doubled from €9.90 on 31 December 2002 to €19.80.



MAN shares continued their upward trend at the beginning of 2004.

Both share classes continued their upward trend into the beginning of the 2004 financial year.

Long-term yield

Over the past ten years, an investment in MAN shares would have generated an annual gross yield of 4.5% (ordinary shares) or 5.3% (preference shares). Compared with the average annual yields offered by stocks listed in the DAX 30 and the DJEuroStoxx50 indices, all investments in MAN shares made since the end of 1996 and held at least until the end of 2003 would have produced higher returns.

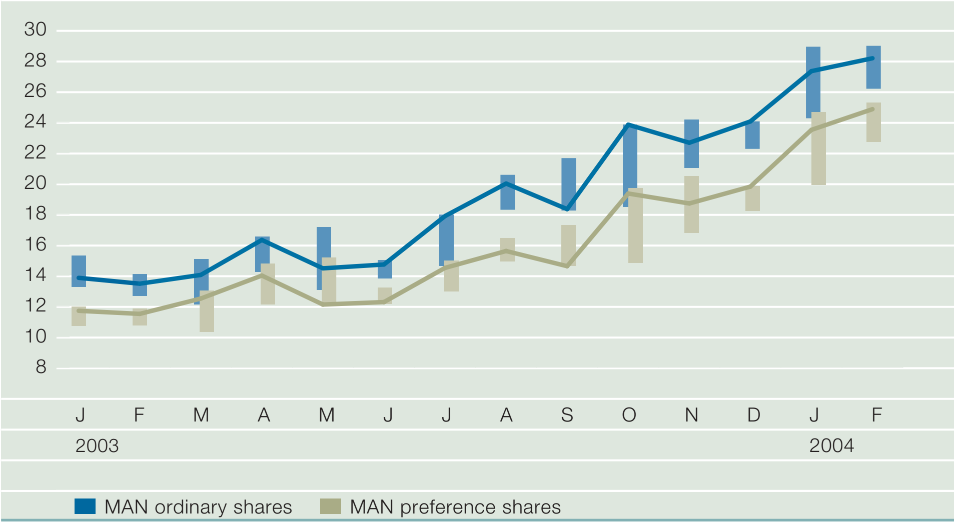
Sustainable management

MAN shares have been relisted in the Dow Jones STOXX Sustainability Index (DJSI STOXX) for the year 2004, after the MAN Group gained a significantly higher rating than in 2003. The pan-European DJSI STOXX only lists companies leading in their specific fields in terms of sustainability-driven business policies. MAN shares were first admitted to this index in 2003. In addition to corporate strategy, the criteria include activities in the sector of environmental protection, as well as social commitment.

Transparent communication with capital markets

MAN ensures that all capital-market operators are equally provided with up-to-date information on corporate developments. The Executive Board regularly updates investors, analysts and the press on the latest financial and earnings situation, as well as

MAN shares: highs, lows and closing prices
€



business trends. In addition, any information likely to influence share prices is immediately published in the form of ad hoc announcements and can be accessed on the MAN website.

The Annual General Meeting held on 4 June 2003 again served as a key forum for personal interaction with our shareholders. For the first time, it was easier for shareholders not attending the meeting to exercise their voting rights by authorising a proxy nominated by the company, but acting in accordance with their instructions.

2003 saw the successful placement of a eurobond.

To intensify the company's constructive dialogue with financial analysts, a telephone conference was held following publication of each quarterly report, in addition to the annual analysts' conference. Numerous institutional investors gained confidence in the Group's corporate strategy and long-term value during discussions at its Munich headquarters and during presentations at investor conferences and road shows held in European and American financial centres of major relevance to MAN. The successful placement of a eurobond was preceded by several days of presentations to European bond investors.

Such events tailored to specific information needs were supplemented by enhanced information offerings for all interested parties, with priority being given to the ongoing improvement of our website content (www.man-group.com).

Performance* of MAN shares and key indices up to the end of 2003 (in % p.a.)

	1 year	3 years	5 years	10 years
MAN ordinary shares	90.3	(0.9)	2.4	4.5
MAN preference shares	109.8	1.7	7.0	5.3
DAX 30	37.1	(14.9)	(4.5)	5.8
DowJonesEuroStoxx50	15.7	(16.7)	(3.8)	6.8

* Development of share index prices; development of share prices including cash dividend

To comply with Sec. 15 of the German Securities Trading Act, members of the Executive and Supervisory Boards, as well as their dependants, must report on any purchase or sale of MAN shares, related options or other derivatives. MAN AG received no such notifications during the last calendar year, nor were any members in possession of shareholdings subject to the disclosure requirements of sub-clause 6.6 of the German Corporate Governance Code at 31 December 2003.

Rising dividends

We will be proposing a dividend of €0.75 per share at the Annual General Meeting.

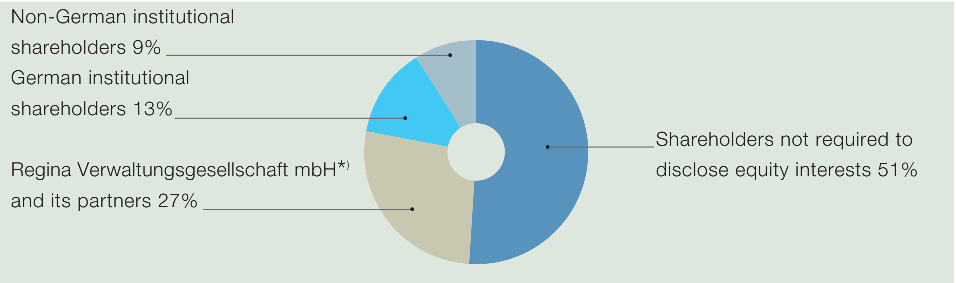
The dividends distributed to MAN shareholders reflect the annual earnings generated by the company. Since net income improved by €88 million to €235 million, the Executive and Supervisory Boards will be in a position to propose a dividend increase of €0.15 to €0.75 at this year's Annual General Meeting. Based on the closing prices at 31 December of €24.05 for ordinary shares and €19.80 for preference shares, this represents a yield of 3.1% for ordinary and 3.8% for preference shares.

MAN dividends per share
€

Balanced shareholder structure

Compared with 2002, MAN's shareholder structure has for the most part remained stable. The only change registered was in the proportion of total share capital held by foreign institutional investors, which increased marginally by one percentage point, reducing the share held by German institutional investors. The Regina Verwaltungsgesellschaft mbH in Munich was the only investor with a substantial single holding of more than 5% of the share capital.

MAN shareholders
2003



*) Allianz AG, Allianz Lebensversicherungs-AG, Commerzbank AG, Münchener Rückversicherungs-Gesellschaft each hold 25% (directly and indirectly) of the subscribed capital

Source: Thomson Financial

Corporate Governance at MAN

The term "corporate governance" denotes the responsible management and control of a company, geared to the sustained creation of economic value added. In the case of MAN, prevailing legislation, the memorandum and articles of association and the internationally-accepted standards set out in the German Corporate Governance Code form the basic structure for shaping a transparent and value-driven corporate policy. Efficient cooperation between Executive and Supervisory Boards, consideration of our shareholders' interests and open corporate communication traditionally form the basis for our actions.

Internal processes and directives are reviewed on an ongoing basis and prudent adjustments implemented as swiftly as possible. In 2003, these included a resolution passed at the Annual General Meeting to introduce separate remuneration for Deputy Supervisory Board Chairmen and for the Chairman and members of the Audit Committee.

Declaration of compliance

In December 2003, the Supervisory Board and the Executive Board of MAN AG issued the annual declaration of compliance in accordance with Sec. 161 of the German Companies Act (AktG), which read as follows:

MAN complies with the recommendations of the German Corporate Governance Code, with one exception.

"MAN Aktiengesellschaft has complied with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with its compliance declaration of 12 December 2002, as amended by the declaration issued in July 2003, and is now complying with the prevailing recommendations of the Code, as amended on 21 May 2003, with the following exception. Details of compensation paid to individual members of the Executive Board shall be reported in the Notes to the Consolidated Financial Statements (sub-clause 4.2.4 of the Code), insofar as the average salary of all Executive Board members will be stated."

The company is of the opinion that this will provide shareholders with adequate information on the commensurability of the remuneration received by the Executive Board, even in the absence of further details on individual amounts.

In addition to the official recommendations, MAN also complies with the majority of optional supplementary suggestions contained in the German Corporate Governance Code. Full details are provided under Investor Relations/Corporate Governance on the MAN homepage at www.man-group.com and can also be made available upon request.

MAN Employees

The increasingly international focus of our business, and more especially the imminent eastward enlargement of the EU, call for effective and efficient solutions to improve our competitive strength in the interest of the entire Group and the jobs it provides. Human resources management has helped to face this challenge throughout the necessary restructuring and cost-reduction processes by introducing supplementary measures to increase flexibility. At all levels, equal importance has been attached to intensifying activities aimed at recruiting young talent, promoting vocational training and qualification, as well as identifying and developing management potential across the MAN Group. Our vocational and management training schemes ensure the future competence of the company and its employees.

Employees – opportunities for talents

At the end of 2003, 64,158 people were employed by the MAN Group.

During the period under review, the number of employees decreased by 10,896. This figure takes into account both the disposal of the SMS Group, representing a reduction of 9,419, and other changes in the scope of consolidation leading to an increase of 472 employees. On a comparable basis, the staffing levels (MAN Group excluding SMS) fell by 1,949 or 2.9% between 31 December 2002 and 31 December 2003. In our foreign subsidiaries, the number of employees increased to 22,661, representing about 35% of the total workforce. Personnel expenses, excluding SMS, rose slightly by €38 million compared with 2002, reaching €3,353 million (+1.1%).

Employees*
at 31 Dec.

	2003	2002
Germany	41,497	43,405
Rest of the world	22,661	22,230
Total	64,158	65,635
Rest of the world (in %)	35	34
Increase after consolidation	472	132

* MAN Group excl. the discontinued SMS Group operations

Flexible structures

Members of the MAN Group continued to make use of all available tools, enabling them to react flexibly to changes in the marketplace. For the most part, these comprised limited employment contracts and the use of temporary staff, along with both positive and negative flexitime accounts. This flexibility reserve helped to stabilise employment levels and secure jobs for permanent staff.

Performance culture

Comparative surveys have shown that in the case of the MAN Group, a particularly large portion of the remuneration paid to management executives is linked to the successful performance of the company. We shall continue to resolutely pursue this path and have meanwhile refined the variable remuneration system even further. In future, achievement of demanding corporate goals will be more highly rewarded than before.

Employees at closing date*
'000

* MAN Group excl. the discontinued SMS Group operations

Securing young talent

Young, qualified personnel represent a success factor, especially for technological enterprises like MAN. During the period under review, systematic surveys were therefore conducted to evaluate the Group's attraction as an employer. These also included the experiences of our young trainees. As a result of the surveys, direct approaches to students were increased, specifically integrating the activities offered by our Study Sponsorship Scheme. These efforts met with their first success during the company's participation in the Graduates' Convention in Cologne. Our presence confirmed that, with its strengths and positive brand image, the MAN Group has a good chance of attracting qualified young talent.

MAN Academy

The MAN Academy focuses on the systematic development of high-potentials.

Activities to improve the qualifications of our management staff are bundled in the MAN Academy, which systematically prepares high-potentials for new assignments and provides staff members already in management positions with new management know-how. During last year, courses focused mainly on the Group's corporate goals and international activities. The training opportunities offered by the European School of Management and Technology (ESMT), which is partially sponsored by MAN, were also selectively integrated into our management development schemes.

Vocational training

With a trainee ratio of 7% in our German companies, the number of young people trained regularly exceeds the Group's own estimated requirements. In 2003, 1,059 apprenticeships were made available for initial vocational training. Places in our training workshops not required for our own apprentices continued to be used for joint training in association with other companies and local employment offices.

Thanks to the staff and the employees' representatives

We should like to thank all our employees for their active involvement. Due to their high level of commitment, they made a significant contribution to the Group's performance. Our thanks also go to the employees' representatives with whom it was again possible to arrive at objective and constructive solutions in an atmosphere of mutual trust.

Employees by division
at 31 Dec.; 2002 restated

	2003	2002
Commercial Vehicles	34,094	34,449
Printing Machines	9,465	10,262
Diesel Engines	6,625	6,889
Turbomachines	2,494	2,500
Further Industrial Holdings	4,500	4,625
Industrial Services	6,689	7,099
Financial Services	87	80
Holding company	204	203
MAN Group	**64,158**	**66,107**

01 to 05 Our employees are our most important factor for success.

Clear Strategy.

We see ourselves as a group of focused enterprises operating in clearly-defined core businesses of the commercial vehicles and mechanical engineering industries. These core businesses are subject to specific criteria:

System competence. Each core business must be in a position to offer not only individual products, but also integrated systems. By integrated systems, we mean complete solutions geared to customer needs.

Self-supporting business volume. Each core business must have the "critical size" needed to generate its own growth.

Clear management structure. In the case of each core business, clear management control must lie with the MAN Group holding company, MAN AG.

High-return potential. MAN's manufacturing companies must generate a 5% return on sales throughout varying economic cycles, and all MAN companies show a return on capital employed of 15%.

Leading market position. Each core business must not only hold a leading technological position in its field, but also occupy first, second or third place in the relevant market. Over 90% of our manufacturing divisions have already secured one of these three top positions. The following pages show the market positions held by the high-quality capital goods which our core businesses produce.

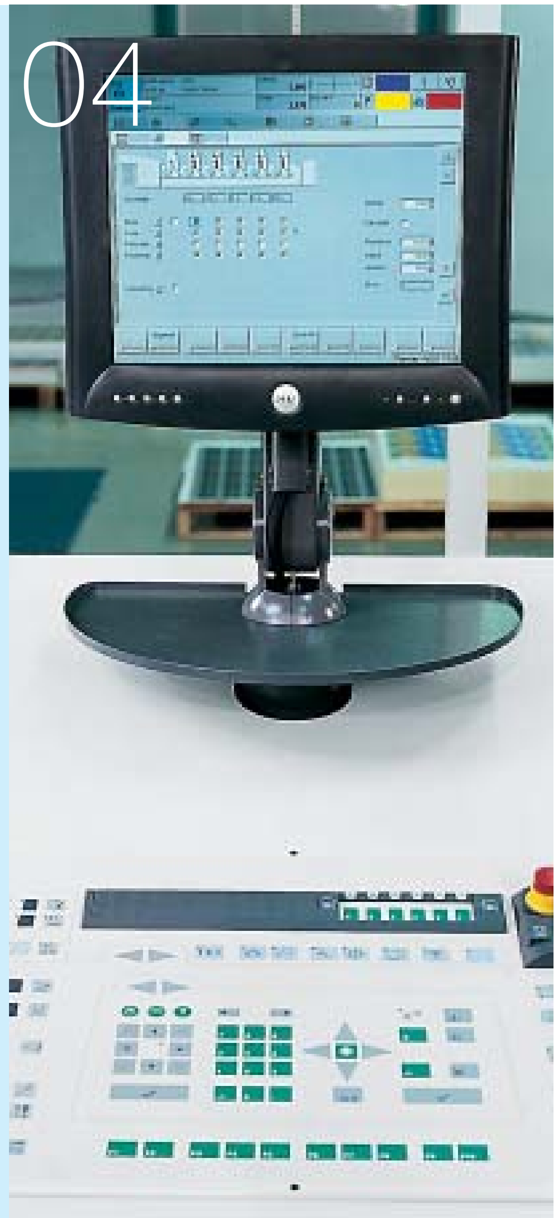
Leading the Markets.

01 The new generation of D20 common-rail engines demonstrates yet again the pioneering technological role played by MAN Nutzfahrzeuge. Along with lower consumption and less weight, the D20 engine offers a significantly higher output than previous models. Despite longer maintenance intervals, it also has a longer life span.

02 MAN Nutzfahrzeuge is number three on the European markets for buses and trucks over 6 t. Following reorganisation, this largest MAN Group subsidiary is now well on the way to regaining its status as one of the most profitable commercial-vehicle manufacturers. The company is strong enough to generate its own growth, which by no means excludes meaningful cooperation with other manufacturers.

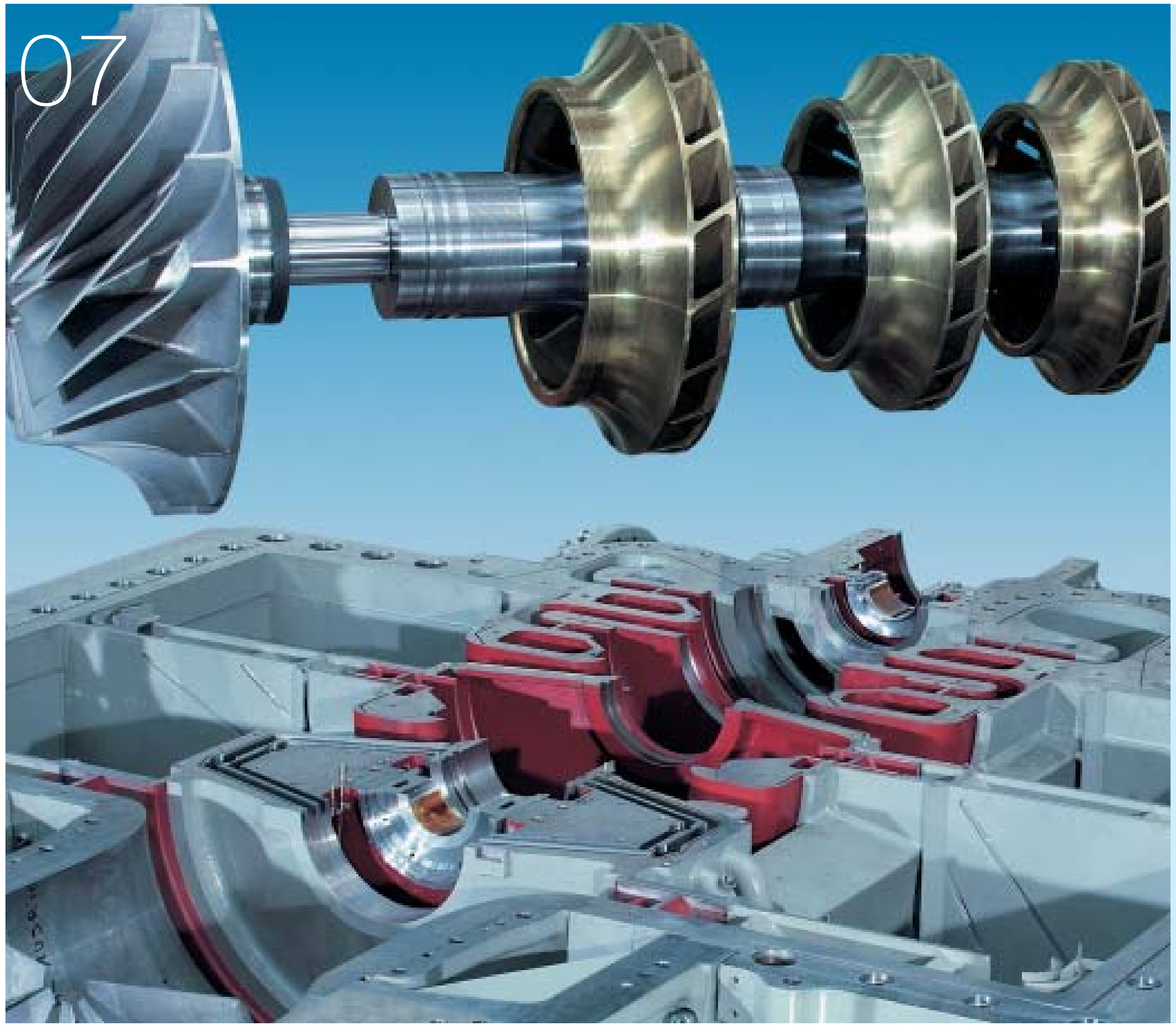
03 Experience in the construction of printing presses dating back to 1845 has earned MAN Roland the position of leading global player on the market for rotary newspaper presses. Every day, some 380 million people around the world read a newspaper printed on a rotary offset press produced by MAN Roland. The company holds second place on the market for sheet-fed offset presses.

04 Working together with best-in-class partners, e.g. as a member of the strategic PrintCity alliance, MAN Roland is able to offer complete systems for the graphic industry. Networking software for printing works is however supplied by MAN Roland's own in-house experts, with 70% of all Germany's daily newspapers using the printnet workflow-system developed by ppi Media, a subsidiary of MAN Roland. More than one thousand sheet-fed printing works are meanwhile networked with PECOM.



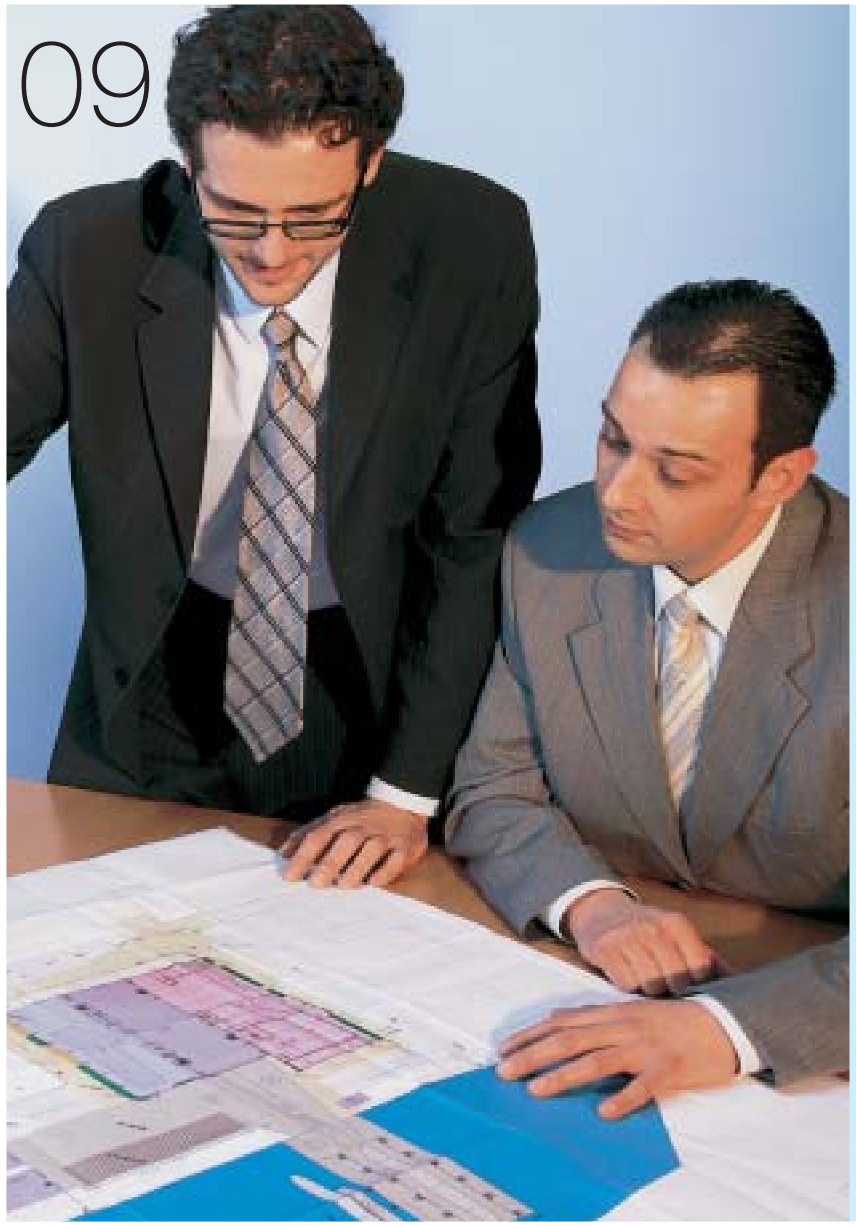
05 On the markets for medium-speed four-stroke diesel engines and heavy-engine turbochargers, MAN B&W Diesel holds second place. In the end, it is the highly-qualified employees in the company's own foundry who guarantee the superior quality of the four-stroke machines also used to drive stationary and floating power plants.

06 Between 1893 and 1897, Rudolf Diesel constructed his revolutionary invention in workshops owned by the former M.A.N. Today, more than one hundred years of experience later, every second seagoing vessel is powered by an MAN B&W diesel engine. MAN B&W Diesel is meanwhile the world's leading manufacturer of main two-stroke marine engines, holding an over 70% share of the market. In most cases, competent licensees produce these engines at local shipyards according to MAN's working drawings.



07 Since taking over certain operations from the Swiss company, Sulzer AG, MAN TURBO has been number three on the market for turbomachinery. Post-merger integration of the organisational and cultural structures in place at the company's locations in Germany, Switzerland and Italy has now been completed and is proving very successful.

08 The scope of products offered by MAN TURBO is considered uniquely universal. It includes a full range of turbomachines for the oil and gas industry, the processing industry and for the subsequent generation of power. An after-sales service for compressors and turbines rounds off the company's portfolio.



09 Ferrostaal offers industrial services and systems tailored to individual customer needs, specialising in the turnkey delivery of entire projects. A key feature of this service package are customised financing concepts. Ferrostaal enjoys an exclusive market position, there being no other company like it in the world.

10 Ferrostaal serves other members of the MAN Group as a supplementary sales platform. Affiliates are able to take advantage of Ferrostaal's tight network of contacts in many countries.

MAN Annual Report 2003

Commercial Vehicles

The MAN Nutzfahrzeuge Group recorded a sharp rise in earnings during the 2003 financial year, in spite of an unfavourable trading environment. Although market volumes continued to decline in Western Europe and the development in euro exchange-rates curtailed business activity, the group was still able to double its EBIT figure. This encouraging performance was largely due to successful implementation of the turnaround programme in the bus sector. The executive board is expecting a further strong increase in earnings in 2004.

MAN Nutzfahrzeuge – successful reorganisation in the bus sector

The economic situation in our main market of Western Europe remained strained throughout 2003. Particularly in Germany, discussion on changes in legislation and introduction of a toll system led to widespread uncertainty and restraint on the part of investors. Against this background, total registrations of trucks over 6 t dropped again by around 5% in Western Europe.

Rising market share

Our truck activities increased their share of the European market to 14.9% in 2003.

Last year, some 41,850 MAN trucks were newly registered in Western Europe. Based on a total market volume of 280,400 vehicles, this represented a 1.2% year-on-year increase in our market share to 14.9%. The Western European bus market likewise continued to decline in 2003, falling to 23,550 registered vehicles. MAN and NEOPLAN vehicles maintained their market position with 3,361 registrations and a market share of 14.3%.

Positive order situation – reductions in manpower

The group's order intake rose by around 4% compared with 2002, this growth being largely due to an increase of €240 million in the truck sector, where orders totalled €5.6 billion. New orders of €1.2 billion in the bus sector were however also marginally higher than the previous year's figure.

Sales grew by 2%, while the group's order backlog amounted to €1.4 billion at the close of the financial year, made up of 12,000 trucks and 2,500 buses. The initial basis for 2004 has therefore improved compared with last year.

On balance, the number of employees in the group was reduced by 304 compared with 2002, dropping to 34,094. Cutbacks undertaken mainly in the German plants were partially offset by increases at our foreign bus locations in Poland and Turkey. As far as possible, we adhered to our concept of implementing staff reductions on a socially-acceptable basis.

MAN Nutzfahrzeuge Group
€ million

	2003	2002
Order intake	6,772	6,525
Sales	6,707	6,564
Volume sales		
trucks (number)	55,849	53,851
buses (number – including chassis and kits)	6,282	5,840
Earnings before taxes	121	13
Employees (number at 31 Dec.)	34,094	34,398
Return on capital employed (%)	9.4	4.3
Return on sales (%)	1.8	0.2

Technological leadership remains our strategic goal.

Investment in enhanced processes and product innovations

€187 million were invested in tangible and intangible assets during the 2003 financial year. Capital expenditure in the truck sector focused on increasing productivity and new product start-ups, including preparation for the new D20 engine series with its second-generation common-rail injection system. This series represents completion of the largest engine development project in the company's history. Thanks to a series of innovative highlights, the new engine's key data surpass those of existing engines in all relevant aspects, with up to 5% lower consumption, a weight reduction of some 100 kg, lower emission values and designed to meet Euro 4 and Euro 5.

Following the successful serial launch of the super-wide tyres for our city-bus range, we were the first company to also offer serial production of these tyres for the truck sector, as from the summer of 2003. Our customers can now enjoy advantages in terms of consumption and direct payload benefits. Technological leadership remains our strategic goal. Each day, 1,631 research and development staff are working towards this, both at home and abroad, with a total of €176 million being spent on research and development in 2003.

Earnings exceed expectations

The EBIT figure of €203 million, double the 2002 result, exceeded all expectations in 2003, a determining factor being the successful implementation of our turnaround programme in the bus sector. The manufacture of labour-intensive modules was relocated to Turkey and Poland, common platforms created for the MAN and NEOPLAN brands and administrative activities bundled. Generating an EBIT of €5 million, after –€72 million in 2002, we managed to steer the bus sector back into the black earlier than expected, following a sustained period of losses.

The EBIT figure again showed a marked improvement in the truck sector, reaching €198 million, despite the fact that sales rose by only 2% and the weak pound sterling and US dollar had an adverse effect on earnings. This achievement was largely the result of improved productivity, along with completion of the cost-reduction measures successively introduced since 2001.

Outlook: another marked rise in earnings expected

Having successfully reorganised our bus activities and optimised cost structures in all divisions, a sound basis has been created to start the year 2004. In addition, the launch of innovative products to enhance the truck and bus ranges, as well as the new D20 engine, are expected to further improve our market position. Finally, we are currently predicting a slight economic upswing in Western Europe. Taking into account all these factors, we view the coming year with confidence and are anticipating yet another marked rise in earnings.

MAN Nutzfahrzeuge Group
Earnings before interest and taxes (EBIT) by division
€ million

	2003	2002
Trucks	198	174
Buses	5	(72)
	203	102

01 Articulated TGA-trailer for long-haul runs.
02 L2000 Evolution flatbed truck for distribution services.
03 Tourliner, the new NEOPLAN coach.
04 Fully air-conditioned, low-floor city bus.
05 V8 marine diesel with common-rail injection, 662 kW (900 HP).

Printing Machines

In 2003, the MAN Roland Druckmaschinen Group was able to register a slight increase in order intakes compared with 2002, thanks to an end-of-year recovery. Sales however continued to fall at a double-digit rate, resulting in negative earnings. In view of the economic recovery expected in the graphic industry, the executive board is targeting a marginally positive result in 2004.

MAN Roland – focus on a turnaround

Strained market situation

The international market situation remains extremely subdued in the graphic industry, with producers of printing equipment experiencing continuing pressure on margins. Capacity utilisation levels were generally low and certain shifts were noted in the media used for commercial printing and advertising. Many printing works have provisionally postponed scheduled investments.

Order situation: definite improvement

Order intakes showed a slight 2% improvement compared with 2002.

In 2003, order intakes of €1,575 million exceeded the 2002 figure by 2%, but still fell some 30% short of the level reached in 2000. First signs of a distinct recovery became evident towards the end of the year, resulting in a 23% increase in incoming orders in the second half compared with the first six months of 2003. Of the year's total order intake, €708 million (+1%) were registered in the sheet-fed sector, €651 million (+6%) in the web-fed business and €216 million (–5%) in the trade and services sector.

Group sales of €1,516 million were 16% lower than the previous year's figure. All three divisions reported declining turnover, the sheet-fed presses falling to €674 million, 5% short of their 2002 result. In view of relatively long product life-cycles, the revenue from web-fed operations suffered the full impact of a sharp downturn in orders during 2002, reporting a 28% drop to €625 million. Business in the trade and services division decreased by 7% to €217 million. The total export quota amounted to 80%.

Low order backlog

At the end of 2003, the order backlog amounted to €847 million. This was 6% less than one year earlier (31 December 2002). Although sheet-fed presses were able to register a 6% increase to €185 million, the order backlog for web-fed systems fell by 10% to €648 million. This drop was however mainly due to the weakness of the US dollar at balance-sheet date. Calculated at the hedging rates fixed for the various projects, the order backlog in the web-fed sector lay only marginally below the 2002 level.

Negative earnings

At the beginning of 2003, a series of group-wide measures was launched, aimed at progressively cutting costs by some €130 million p.a. compared with 2002. Savings of around €50 million were realised during the year under review, with the full reduction

MAN Roland Druckmaschinen Group
€ million

	2003	2002
Order intake	1,575	1,542
Sales	1,516	1,808
Earnings before taxes	(37)	10
Employees (number at 31 Dec.)	9,465	10,300
Return on capital employed (%)	(4.4)	4.6
Return on sales (%)	(2.4)	0.6

scheduled to be achieved by 2005. Initially, the costs of reducing staff had a negative impact on earnings. The number of employees fell by 590 in the sheet-fed sector, by 150 in the web-fed sector and by 95 in the case of trade and services. Earnings were also checked by the enormous pressure on prices as a result of surplus capacity on the world market.

Whereas the web-fed division was nevertheless able to achieve earnings of €30 million before interest and taxes (2002: €67 million), sheet-fed operations closed with a loss of €56 million (2002: –€43 million) before interest and taxes, due to restructuring measures. These figures did not include other extraordinary costs and accruals related to customer financing activities undertaken in North America at the end of the nineties, which were covered by MAN AG out of consolidated contingency funds.

The distribution and services activities achieved a turnaround.

The trade and services activities achieved a turnaround to reach breakeven in the year under review, after losses of €5 million in 2002. The main factors contributing to this were the capacity adjustments in our distribution and service organisation undertaken in 2002.

Overall pre-tax earnings of –€37 million in 2003 fell significantly short of the figure expected at the beginning of the year.

Outlook: marginally positive result targeted for 2004

The overall economic situation appears to be set for a slight improvement in 2004. Following marked setbacks in 2001 and 2002, the advertising markets were able to stabilise slightly in most countries during 2003. Newspapers and advertising publications, as well as commercial printing and catalogues, must however be prepared for a level of activity that continues to be generally lower than at the turn of the millennium. This will result in a process of on-going concentration among printing works. Based on this scenario, we expect the present low level of momentum in market demand to persist in all divisions throughout the current year.

The order intake in 2004 is expected to marginally exceed last year's level. It is anticipated that positive impetus for the industry will be generated by the drupa trade fair, to be held in May 2004. Taking place every four years, this is the world's largest fair for the graphic industry. Our software solution offering full-scale networking for printing works (printnet) will also give us an added edge in the marketplace. The order backlog for web-fed presses should lead to rising earnings in this sector, while the sheet-fed presses should benefit from additional volumes as a result of new models, in particular the ROLAND 900 XXL. In view of the anticipated economic recovery in the graphic industry, we are targeting marginally positive earnings in 2004.

MAN Roland Druckmaschinen Group
Earnings before interest and taxes (EBIT) by division
€ million

	2003	2002
Sheet-fed	(56)	(43)
Web-fed	30	67
Trade and services	0	(5)
	(26)	19

01 The new ROLAND 900 XXL has set global standards for large-format printing of posters, books and other publications.
02 The REGIOMAN is synonymous with success on the market for regional newspapers.
03 Man-machine interface at MAN Roland’s new control centre.
04 The LITHOMAN leads the market for magazine and catalogue printing.
05 The DICOweb is the world’s first digital offset printing system.

Diesel Engines

As a leading player in its markets, the MAN B&W Diesel Group was able to successfully cushion the impact of negative economic trends in 2003. In spite of an expected downturn in sales and earnings, the shortfall was comparatively moderate. It was possible to increase order intakes by some 7%. The executive board is expecting sales and earnings to rise in 2004.

MAN B&W Diesel – strengthening its leading position

In its strategic core areas of two and four-stroke engines, as well as in the turbocharger segment, the group was able to strengthen its leading market position. Trends varied in the different industrial sectors during 2003. The negative economic climate persisted until mid-year. Not until the second half were there signs of a positive underlying mood, which increased towards year-end. Following a period of consolidation in 2002, the tonnage ordered in the shipbuilding industry had returned to its previous record levels of 1973 by the end of last year. The concentration of global shipbuilding activities in Asia continued undiminished. Orders focused mainly on oil and other special tankers, as well as on container ships, a rise also being recorded in the case of passenger vessels. In the energy sector, construction activity in terms of new power stations remained negligible. To a minor extent, this was offset by power-station extensions incorporating diesel technology. By contrast, a positive trend was registered in the turbocharger business, with the engine and turbocharger service activities also performing well.

Stable market position

Due to a significant increase in the demand for equipping new ships during the second half of 2003, the group's order intake for the year rose by 7% compared with 2002. However, settlements still reflected the previous decrease in order volumes during 2002 and the stagnating level of new orders during the first six months of the period under review. As a result, sales revenue fell by 7% to €1,312 million.

72% of all two-stroke marine diesel engines ordered in 2003 were produced by MAN B&W.

In the sector of two-stroke marine engines, we were able to secure 72% of all orders placed in the market, successfully defending our leading position. In the case of medium-speed four-stroke marine engines, our 19% market share remained stable, enabling us to retain second place. The most important market during 2003 was the People's Republic of China.

During the period under review, we were able to win contracts for three two-stroke diesel power-plants, installing an output of 270 MW. According to the latest statistics published by the trade magazine Diesel & Gasturbine Worldwide, the group holds a 60% share of the market for non-automotive diesel engines with a specific output of over 7.5 MW. This clearly confirms the MAN B&W Diesel Group as market leader in this segment.

In the case of turbochargers, we are the second-largest supplier, holding an approximately 30% share of the market.

MAN B&W Diesel Group
€ million

	2003	2002
Order intake	1,460	1,363
Sales	1,312	1,408
Earnings before taxes	44	68
Employees (number at 31 Dec.)	6,625	6,889
Return on capital employed (%)	11.4	16.8
Return on sales (%)	3.4	4.9

Continuing success for R&D

The trend to larger vessels forces us to make consistent advances in the field of engine technology by producing ever-increasing levels of output performance. We have meanwhile developed the K108ME engine series which, equipped with 14 cylinders, offers an output of almost 100,000 kW, making it the largest and strongest engine on the market. Serial production of our new generation of axial TCA turbochargers is now successfully underway. Following the success of the concept behind the TCA charger series, we are now focusing on a series of radial TCR turbochargers, prototype testing having already been completed.

Environmental aspects play a major role in our developments and we have, for instance, made significant progress in the key areas of emission and fuel consumption. It is expected that the limits set for nitrogen oxide (NO_x) by the IMO (International Maritime Organisation) will be ratified by its member states during 2004. Our engines already comply with these limits. The stringent limits for NO_x and particulate matter stipulated by the World Bank as criteria for financing non-automotive power plants are also met by our engines. We are the only supplier of two-stroke diesel engines to satisfy these requirements.

Fuel-injection will play a key role in the engines of tomorrow.

The further development of fuel-injection will play a key role in the engines of tomorrow. Both in the case of heavy medium-speed diesels and high-speed engines, we are working intensively on our own common-rail injection system.

Decrease in earnings

Pre-tax profits amounted to €44 million for the 2003 financial year, after €68 million in 2002. The factors leading to this downturn, which was in line with forecasts, were restrained business activity from mid-2002 onwards, coupled with persistently weak markets in certain product segments. Added to these was expenditure on restructuring and streamlining the high-speed four-stroke production facilities in England.

Outlook: return to growth rates expected

In the case of Diesel Engines, we anticipate that shipbuilding will remain buoyant and that order intake will continue at the high level of 2003. With order levels rising, sales and workload are set to advance. Given the circumstances and the measures already taken to sharpen our competitive edge, we expect a much improved EBT for the year.

MAN B&W Diesel Group
Earnings before interest and taxes (EBIT) by division
€ million

	2003	2002
Two-stroke diesel engines	41	45
Four-stroke medium-speed engines	27	54
Other divisions	(10)	(16)
	58	83

01 Medium-speed MAN B&W 9L48/60 engine for a new ship being constructed at the Sietas shipyard in Hamburg.
02 12K90MC two-stroke diesel engine.
03 The Birko Enerji power station houses MAN B&W diesel engines.
04 An order for ten 12V48/60B engines was received from the Meyer shipyard.
05 Employee carrying out production work.

Turbomachines

Order intakes in the MAN Turbomaschinen Group achieved a new all-time high. Sales rose by 7%, while earnings remained stable, equalling the level of 2002. The extremely high order backlog offers substantial security in terms of sales and workloads. Capacity utilisation is high to very high in all production plants. A significant increase in sales is expected for 2004 and the executive board also anticipates a marked rise in earnings.

MAN Turbomaschinen – record orders

Activity in the markets of relevance to our group varied considerably in 2003. In regional terms, Asia gained outstanding significance during the last financial year, especially the People's Republic of China, whereas order volumes in North America fell far short of expectations. In addition to the weak overall demand, the strong euro had a negative effect on certain projects.

Order intakes rise by 22%

Order intakes of €658 million reached a new all-time high.

In an economic environment that contrasted strongly in terms of both geographic areas and markets, order intakes reached a new all-time high of €658 million (+22%). Compared with 2002, orders for new construction projects showed the strongest rise. The market segments dominating the 2003 business year were primary industries and air separation. In the gas turbine and gas transport/petrochemicals markets however, orders fell marginally short of targets, the strong euro having a particularly adverse effect.

Order intakes in the service sector showed a slight improvement over 2002, special mention being made of several major conversions carried out by the compressor service operations, underscoring our technical competence in this field. In the case of gas-turbine services, a substantial part of the business volume is meanwhile generated from long-term service agreements. These guarantee customers a high level of plant availability and optimised maintenance costs, while we on the other hand are able to secure and expand the volume of service business on a long-term basis.

The service company set up in Brazil at the end of 2002 successfully commenced operations, being primarily responsible for handling the long-term service agreement with the largest Brazilian oil and gas producer. The formation of our own sales and service subsidiary in China is scheduled for 2004 and is intended to strengthen our local presence in this important growth market.

MAN Turbomaschinen Group
€ million

	2003	2002
Order intake	658	539
Sales	567	530
Earnings before taxes	23	22
Employees (number at 31 Dec.)	2,494	2,500
Return on capital employed (%)	12.4	11.7
Return on sales (%)	4.0	4.2

Moderate growth in sales

Sales amounted to €567 million in 2003, an increase of only 7% on the previous year in spite of the very high level of new orders. Particularly in the case of new construction work, the extremely low order volumes recorded in 2002 had an inhibiting effect on growth. Final settlements for major projects in the new construction sector included THM gas turbines to drive pipeline compressors, two destined for Azerbaijan and two for Bolivia, as well as a set of machinery for a terephthalic acid plant in China.

The order backlog amounted to €450 million at 31 December 2003, reaching a new record and exceeding the previous year's figure by 21%.

Targeted investment in manufacturing alliance

Competence centres at four locations form the basis of our manufacturing alliance.

The MAN Turbomaschinen Group operates four manufacturing plants in Oberhausen, Berlin, Zürich and Schio (Italy). To ensure optimal response to customer needs, competence centres have been defined, also forming the basis for a manufacturing alliance among the four production sites. Capital expenditure in 2003 was focused on the products and competencies allocated to each location.

At the Oberhausen plant, modernisation of the production facilities for blades used in compressors and steam turbines continued according to plan, the final stage of this investment programme being scheduled for 2004. Following completion of the entire project, blade manufacture will comply with state-of-the-art technology, including high-speed machining and an advanced level of automation.

In Zürich, work began on modernising and expanding the production facilities for gas-turbine blades. The aim is to achieve a further reduction in manufacturing costs and increase production capacity. The first two precision grinders went into operation at the beginning of 2004. At the Schio plant, investment focused on a boring machine for large compressor casings which went into operation at the beginning of 2003, and was working to capacity during three shifts almost throughout the entire year.

High level of earnings, positive outlook

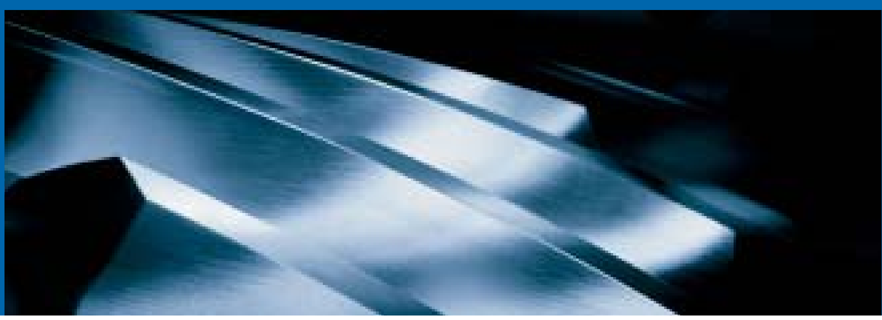
The group achieved earnings before taxes of €23 million for the 2003 financial year (2002: €22 million). The return on sales amounted to 4.0% (2002: 4.2%).

Order intakes in 2004 are expected to more or less equal last year's volumes. A continuing strong euro could however curb demand. The extremely high order backlog offers substantial security in terms of sales and workloads. Capacity utilisation is high to very high in all production plants and a significant increase in sales is expected. Strong growth in earnings is also anticipated.

01 Latest model in the THM gas-turbine series for outputs of 12 to 14 MW.
02 Assembling a rotor for a generator steam-turbine with an output of approx. 100 MW.
03 Casing for one of the world's largest process-gas screw compressors.
04 One of the largest axial compressors with a volume flow of 700,000 m^3/h.
05 Our special strengths include manufacturing and testing entire sets of machinery.

Further Industrial Holdings

The “Further Industrial Holdings” Division includes all manufacturing companies in the MAN Group not incorporated into one of the other divisions. While in some areas RENK, MAN DWE and SHW were able to record marked increases in both order intakes and sales during the year under review, the situation at MAN Technologie remained difficult. Order intakes failed to deviate from their unsatisfactory level and sales slumped. All companies in this division were able to improve earnings to varying degrees. MAN Technologie recorded a significant reduction in losses.



RENK – maintained leading position

During the second half of the year, RENK succeeded in reversing the initially negative business trend. Compared with 2002, key figures showed a slight improvement. Growth was recorded in order intakes and sales, as well as order backlogs. A good level of profitability was sustained and prospects remain positive for the year 2004.

Increased orders

Our outstanding market position as the world's leading manufacturer of transmissions for tracked vehicles remained unchallenged in 2003. Major orders were received from two NATO partners. Our French subsidiary, SESM, also performed well and successfully launched a new transmission design onto the market. The large-gear-unit activities based in Augsburg and Rheine increased their order intake by around 30%. Technically sophisticated gearing solutions for marine applications sold well, whereas falling demand among major electrical engineering companies resulted in somewhat lower orders for plain bearings. Nevertheless, RENK was able to defend its leading position on the market for standard e-bearings.

Profitability remained stable

RENK share-holders will again receive a dividend of €1.20.

The result of ordinary operations for the 2003 financial year amounted to €20 million (2002: €19 million), major contributions coming from vehicle transmissions and large gear units. RENK shareholders will also benefit from this stable earnings trend, with the dividend remaining unchanged at €1.20 per share.

Positive outlook

The economic situation is not expected to deteriorate on our markets during the current year. Combined with the high order backlog, there is therefore a real possibility of again reaching the good level of earnings recorded in 2003.

RENK
€ million

	2003	2002
Order intake	324	305
Sales	267	255
Result from ordinary operations	20	19
Employees (number at 31 Dec.)	1,544	1,531
Return on capital employed (%)	18.8	19.0
Return on sales (%)	7.3	7.5

MAN Technologie – continuing difficult situation

Due to the continuing difficult situation in the European aerospace industry and delays in the ARIANE 5 project in particular, order intakes remained low in 2003. Sales declined. Earnings were also adversely affected by below-capacity operations. Although earnings should improve in 2004, they are expected to remain negative.

We were able to reduce losses in spite of the sustained crisis in the European aerospace industry.

Business activity was likewise dominated by the sustained crisis in the European aerospace industry, which led to considerable project delays. In addition to the slackening demand for commercial satellite launches, technical problems with the ARIANE 5 also affected business operations. The unsuccessful start of the new higher-performance ECA version of the A5 launcher at the end of 2002 led to major postponements in the ARIANE programme and a sharp drop in orders in this sector. On a year-on-year basis, the high intake of orders in the antenna and mechatronics unit was able to compensate for this downturn. Incoming orders in the aviation sector also rose in line with expectations. In the mobile bridges division, placement of a major contract was postponed until 2004. Although in 2003, order intakes showed an overall increase of 19% compared with a very weak year in 2002, they failed to reach a satisfactory level. In the case of the 33% drop in sales, allowance must be made for the fact that the 2002 figures included settlement of a major order from SOFIA (Stratospheric Observatory for Infrared Astronomy).

Research and development on target

A total of €46 million, made up of the company's own resources and borrowed funds, were spent on research and development. Projects focusing on the development of products and processes in the sectors of space-launching and space-transport technology, aviation equipment, antennas and mechatronics, as well as mobile bridges, brought significant results.

Severe pressure on earnings – outlook clouded by risks

Due to a lack of orders in aerospace business, capacity was not fully utilised in this division, resulting in a loss of €19 million in 2003. An even greater loss of €39 million was recorded in 2002 due to various extraordinary items. Although, the restructuring measures drawn up in 2002 were implemented as planned in the course of 2003, their full impact will not be felt until 2004.

The outlook for the aerospace business is fraught with considerable risks and unknown quantities. Only in the event of a successful launch of the ARIANE 5 missions scheduled for 2004, support for the ARIANE programme from the ESA states, and continuous production of at least four sets of ARIANE components will it be possible to achieve a significant improvement in earnings in 2004. The result will however probably remain negative.

MAN Technologie
€ million

	2003	2002
Order intake	107	90
Sales	123	186
Earnings before taxes	(19)	(39)
Employees (number at 31 Dec.)	771	887
Return on capital employed (%)	(20.8)	(47.3)
Return on sales (%)	(15.2)	(20.7)

MAN DWE – strong growth, high profitability

2003 brought a favourable constellation of various trends for MAN DWE, leading to an above-average rise in order intake and sales. Earnings before taxes more than doubled compared with the previous year, reaching some €13 million. Performance is expected to return to normal in 2004.

49% rise in orders

The order intake of €102 million reached a record level. New orders in the reactor and process-equipment sector increased by 35%, due mainly to contracts for reactor systems from Saudi Arabia and, as part of a major Ferrostaal project, for methanol reactors from Trinidad and Tobago. Plant engineering operations were able to almost triple their order intake to some €42 million, upholding their position in the refinery market with contracts for supplies of process equipment and for work on idle plants. In addition, long-term orders were received in the physical-process-system segment, whereby special reference should be made to the sophisticated plasma vessel for the Max Planck Institute's Wendelstein 7-X fusion experiment. Only the French subsidiary, Franc Comtoise Industrie SAS (FCI), was unable to match its 2002 order volumes.

Strong leap in earnings

Sales rose by 60% to some €96 million in 2003. Markets generating the majority of sales were China, where contracts for several chemical reactors were completed and settled, and South Africa with two reactor systems. There was a high order backlog of some €83 million (+8%) at the end of 2003. The backlog of some €37 million in the reactor and process-equipment sector remained almost unchanged, whereas the contract with the Institute for Plasmaphysics considerably boosted the plant-engineering backlog.

Earnings and outlook: continuing good returns

On the Asian market, further orders are expected from the chemical industry.

Earnings before taxes reached €13 million in 2003, more than double the figure for the previous year. High earnings and excellent returns are forecast for 2004, although at a more normal level. In the reactor and process-equipment sector, further orders are expected from the Asian chemical industry. The competitive environment, especially on the Asian market, is however creating increasing pressure on prices and consequently on margins. The order intake is expected to return to a more "normal figure" of €75 million. Although we have begun the new financial year with a high order backlog, sales are expected to fall, since the major part of existing orders relates to long-term projects.

MAN DWE
€ million

	2003	2002
Order intake	102	68
Sales	96	60
Earnings before taxes	13	5
Employees (number at 31 Dec.)	441	441
Return on capital employed (%)	53.5	20.2
Return on sales (%)	13.4	8.3

SHW – market position strengthened

In spite of a continuing economic downturn in the automobile and engineering industries, Schwäbische Hüttenwerke GmbH (SHW) was once again able to strengthen its market position with innovative products in 2003. Marked increases were recorded in order intake, sales and earnings. The management is cautiously optimistic for 2004.

We lead the European market for oil pumps.

Automobile division steps on the gas

Although economic activity stagnated in the industry, SHW's automobile division was able to register a significant rise incoming orders and sales in 2003. Additional market shares were gained with new developments and a series of new product launches. New products included a front module with integrated oil and water pump, the first internally-regulated oil pump produced on a commercial scale and an oil pump for dual clutch gear boxes. SHW rose to become the leading supplier of oil pumps in Europe.

To strengthen its market position even further, substantial investments were both completed and initiated. In addition to expanding the oil-pump activities, these mainly served to develop and commence manufacture of a new aluminium camshaft adjuster and enhance existing internally-ventilated brake-disc technology.

Renewed upswing for industrial equipment

The industrial equipment division recorded renewed growth in order intakes and sales in 2003, after declining orders volumes in 2002. SHW Casting Technologies GmbH was successfully steered back into the black. Processing technology was hived off in the course of the year to form a separate company, SHW Storage & Handling Solutions GmbH.

Marked improvement in earnings

Based on significantly higher sales, earnings before tax showed a proportionally greater improvement in 2003, reaching €15 million (2002: €10 million). Net earnings of €9.8 million will result in an unchanged dividend distribution of €5.2 million.

Confident outlook

The economic climate is beginning to improve in the automobile and engineering industries. An additional boost is also expected from the cost-reduction measures already introduced, so that 2004 is generally viewed with confidence.

Schwäbische Hüttenwerke
€ million

	2003	2002
Order intake	263	236
Sales	250	230
Earnings before taxes	15	10
Employees (number at 31 Dec.)	1,268	1,318
Return on capital employed (%)	21.2	14.2
Return on sales (%)	5.9	4.2

01 Double marine gear unit from RENK for the largest cruise ferry in the world today.
02 On-site installation of a 570 t acrylic-acid reactor manufactured by MAN DWE.
03 Booster-casing segment produced by MAN Technologie, ready for the ARIANE 5.
04 SHW: pressing plant for powder-metallurgy processing.

Industrial Services

Following the exceptionally high level of orders in 2002, the order intake returned to more typical volumes in 2003. Sales more or less remained stable. The main reasons for the downward trend were a drop in international steel-trading activity due to the weakening dollar and the protectionist US policy on steel imports. Losses on contracts, underutilisation of capacity and restructuring expenditure in the DSD Group had a major impact on earnings. The executive board is again expecting a positive performance for the current financial year.

Ferrostaal – consolidation in the wake of strong growth

We were commissioned with construction of the world's largest methanol plant in Trinidad and Tobago.

Marked upswing for facility construction and contracting

The facility construction and contracting division operates as a general contractor, offering planning, supply, assembly and commissioning services for industrial plant and equipment, as well as financing and marketing concepts. Major new orders included turnkey construction of the world's largest methanol plant to date in Trinidad and Tobago. Two sulphur recycling plants were completed ahead of schedule for the Chilean enterprises Refinería de Petroleo Concón and Refinería Petrox in Talcahuano. The VEBA Oil Operations in Tripoli, Libya commissioned us to expand their existing drilling facilities in the Ghani oilfield, while machinery and equipment for the production of aluminium wheel-rims in Iran are to be supplied to the Austrian company, AICHELIN GmbH. The total order intake rose by 1% to €736 million, with sales showing a 40% increase to €859 million.

US import restrictions put pressure on steel trading

In the steel-trading and logistics unit, the sagging dollar, coupled with falling prices, led to a drop in business volumes. US protectionist measures against steel imports further aggravated the situation. On the other hand, industrial and systems-logistics activities were able to increase business volumes, even though the unsatisfactory economic situation in the automobile industry persisted. Growth was mainly registered in systems supplies to car manufacturers. Total order intakes declined by 25% to €961 million and sales by 18% to €1,058 million.

Ferrostaal Group € million	2003	2002
Order intake	2,738	3,178
Sales	2,880	2,916
Earnings before taxes	65	85
Employees (number at 31 Dec.)	6,689	6,598
Return on capital employed (%)	15.0	14.8
Return on sales (%)	2.3	2.9

Industrial equipment and systems: diverse trends

The industrial equipment and systems unit includes global marketing and service activities for stand-alone machinery, components and system lines, as well as planning and implementing systems for infrastructure and transport projects. Additional activities involve supplying merchant ships and nautical equipment, as well as undertaking marine assignments, most notably as a member of the German Naval Group. In the case of printing and packaging systems, both incoming orders and sales suffered a setback as a result of the negative trends on world markets. However, due to various special projects, the development in order volumes for standard industrial equipment was positive, in spite of weak market activity. We were commissioned with the construction of an entire cacao-mass processing line in Ghana and a fruit-juice plant in Angola. An agreement for the delivery of 54,000 t of rails was signed with Indonesia and the 150th Neoman bus was delivered in Mexico.

The technical systems and components sector booked an order for the construction of two rolling mills for aluminium foil in China, as well as signing another contract to supply material packages to the Croatian railways. The maritime systems unit handed over the second and third ships as part of a total series of six container vessels. Due to a lack of major contracts, overall order intakes for industrial equipment and systems fell from €625 million to €451 million, while sales recorded a 4% drop to €470 million.

Restructuring at DSD

DSD's steel construction and industrial facilities operations were separated in 2003.

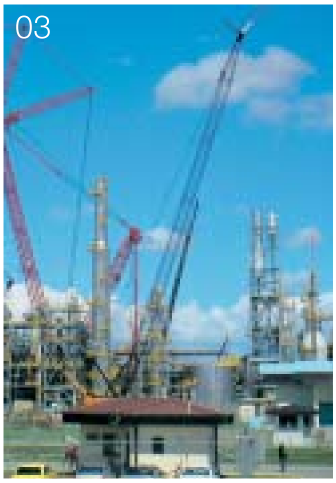
Considerable restructuring took place in the DSD Group during 2003 and will be continued throughout 2004. Steel construction and industrial facilities were separated, the latter being scheduled for restructuring and integration into Ferrostaal AG's facility construction and contracting division. The steel construction activities are being hived off to form four operating companies concentrating on structural steel engineering, steel-bridge construction, hydraulic steelworks and assembly, and will operate in the marketplace together with the other subsidiaries in the steel construction sector under the umbrella of DSD Stahlbau GmbH. The mid-term goal is to incorporate these operations into a medium-sized enterprise on a partnership basis. As a result of this restructuring process, the scope of DSD's activities will attain a greater degree of transparency and we are hoping that reorganisation will give rise to enhanced market penetration in each area. After receiving a major order to modernise a power station in Bulgaria, order intakes increased by 8% to €590 million, while sales fell by 11% to €493 million.

Earnings: down to €65 million

Group earnings before taxes fell to €65 million in 2003, after €85 million in the previous year, due to the major negative impact of losses on contracts, capacity underutilisation and restructuring expenditure in the DSD Group.

Outlook: stabilisation expected

The global investment climate showed signs of improvement at the beginning of 2004. We therefore anticipate that market activity will generally stabilise in the course of the current year, leading to a slight rise in business volumes. A satisfactory earnings performance is expected.



01 Newly-constructed submarine-building facilities at Hellenic Shipyards, Greece.
02 Waterways junction near Magdeburg.
03 The N 2000 ammonia plant in Trinidad and Tobago, shortly before completion.
04 SILS centre in Rüsselsheim: final-assembly module in an automobile works.
05 Transfer conveyor in Bogatyr, Kazakhstan, capable of transporting 5,500 m³ of coal per hour.

Financial Services

The MAN Financial Services Group (MFI) plays a special role in the strategy of the MAN Group. One of its core missions is to provide effective sales support for each member of the Group by offering a range of financial services in line with market conditions. In this way, MFI acts as an extension to the value chain and promotes customer loyalty. MFI was able to increase earnings in 2003, in spite of a difficult market environment and intends to expand its presence in important sales markets during the current year. Furthermore, MFI also assists MAN companies in financing their investments.

MAN Financial Services – satisfactory growth

With the backing of financial services, our manufacturing business has experienced a trend towards full-service solutions in Europe. To meet this need, we also offer insurances in addition to leasing and financing. During the year under review, our financial division was managing a total of more than 26,000 contracts, representing a volume of over €2 billion, with 87 employees in four countries. It provides leasing or financing facilities for every fifth MAN commercial vehicle sold in Germany, while in Great Britain, every second MAN vehicle is included in our contract volume. This underscores the significance of financial services in promoting customer loyalty.

Positive business trend

During the last financial year, new orders climbed marginally to €607 million (2002: €602 million). Although sales of €627 million remained almost unchanged compared with 2002, the division was able to register a marked rise in earnings from €17 million to €26 million. The pre-tax return on equity improved to 20.3% after 16.1% the previous year. An order backlog of €657 million at the end of 2003 provides a good starting position for the current financial year.

Success factors

Quick information for customers and a wide range of financing possibilities contribute to our success.

As a result of our cooperation with other members of the MAN Group, and above all with the Commercial Vehicles and Printing Machines Divisions, we are continually faced with highly-diversified customer scenarios. One of the main success factors is therefore providing quick, on-site information for customers. At the same time, the use of sensitive risk-analysis tools is necessary to ensure that the terms offered are in line with market conditions. In 2003, we therefore began to equip our sales organisations with “online calculation tools”, providing wireless access to important parameters, such as vehicle prices and interest rates, which need to be integrated into the sales process for both vehicles and financial services.

Another success factor is the wide range of refinancing tools. In addition to the existing ABS schemes, under which receivables are documented and refinanced via the capital market, a bond was also issued last year via our English company.

Outlook: additional earnings potential

In the case of the MAN Group’s core activities, most especially the sectors of Commercial Vehicle and Printing Machines, we have become a partner for complete system solutions, enabling the Group to generate additional earnings potential. In 2004, we shall therefore continue to expand our presence on important sales markets. At the present time, we expect both business volume and earnings to reach the same level as last year.

MAN Financial Services
€ million

	2003	2002
Order intake	607	602
Sales	627	628
Earnings before taxes	26	17
Employees (number at 31 Dec.)	87	77
Pre-tax return on equity (%)	20.3	16.1

MAN Group
Consolidated financial statements

Fiscal year ended December 31, 2003

Since fiscal 1998/99, MAN has prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS/IAS), thus offering detailed information, enhanced transparency and terse presentation regarding the net assets, financial position and results of operations of the MAN Group and its segments. This financial information is rounded off by comprehensive reports on the various business operations in the form of voluntary annual reports and subgroup accounts of the major companies, viz. MAN Nutzfahrzeuge, MAN Roland Druckmaschinen, MAN B&W Diesel, MAN Turbomaschinen, RENK, and Ferrostaal.

Contents

MAN Group
Income statement for the fiscal year ended December 31, 2003

€ million

		MAN Group	
	Note	2003	2002
Net sales	(1)	**15,021**	**16,040**
Cost of sales		(12,313)	(13,365)
Gross margin		**2,708**	**2,675**
Selling expenses		(1,113)	(1,162)
General administrative expenses		(657)	(694)
Other operating income	(2)	493	403
Other operating expenses	(3)	(959)	(826)
Income from investments	(4)	5	(5)
Earnings before interest and taxes (EBIT)		**477**	**391**
Net interest result	(5)	(174)	(172)
Profit from ordinary operations/EBT		**303**	**219**
Income taxes	(6)	(68)	(72)
Net income		**235**	**147**
Minority interests		(8)	(12)
Net income after minority interests		**227**	**135**
Intragroup dividend distribution		–	–
Transfer (to)/from reserves retained from earnings		(117)	(47)
Net earnings		**110**	**88**
Earnings per share in €	(7)	**1.54**	**0.92**

thereof	Industrial Business		Financial Services		**Continued operations**		Discontinued operations	
	2003	2002	2003	2002	2003	2002	2003	2002
	12,919	**13,222**	**627**	**628**	**13,546**	**13,850**	**1,475**	**2,190**
	(10,524)	(10,893)	(543)	(560)	(11,067)	(11,453)	(1,246)	(1,912)
	2,395	**2,329**	**84**	**68**	**2,479**	**2,397**	**229**	**278**
	(955)	(954)	(4)	(5)	(959)	(959)	(154)	(203)
	(566)	(568)	(5)	(3)	(571)	(571)	(86)	(123)
	375	244	38	54	413	298	80	105
	(897)	(738)	(27)	(30)	(924)	(768)	(35)	(58)
	5	(6)	–	–	5	(6)	0	1
	357	**307**	**86**	**84**	**443**	**391**	**34**	**0**
	(122)	(111)	(60)	(67)	(182)	(178)	8	6
	235	**196**	**26**	**17**	**261**	**213**	**42**	**6**
	(56)	(69)	(13)	(3)	(69)	(72)	1	0
	179	**127**	**13**	**14**	**192**	**141**	**43**	**6**
	(8)	(8)	–	–	(8)	(8)	0	(4)
	171	**119**	**13**	**14**	**184**	**133**	**43**	**2**
	71	17	(21)	(11)	50	6	(50)	(6)
	(132)	(48)	8	(3)	(124)	(51)	7	4
	110	**88**	–	–	**110**	**88**	–	–
	1.16	**0.81**	**0.09**	**0.10**	**1.25**	**0.91**	**0.29**	**0.01**

MAN Group: Balance sheet as of December 31, 2003

Assets
€ million

		MAN Group	
	Note	12/31/03	12/31/02
Intangible assets		401	520
Tangible assets		2,052	2,296
Assets leased out		722	788
Financial assets		125	158
Fixed assets	(9)	**3,300**	**3,762**
Inventories	(10)	3,107	3,773
less prepayments received		(1,200)	(1,679)
Trade receivables	(11)	2,851	3,293
Other receivables and current assets	(12)	912	779
Short-term securities	(13)	168	668
Cash & cash equivalents	(13)	380	609
Current assets		**6,218**	**7,443**
Deferred tax assets	(6)	**408**	**444**
Prepaid expenses & deferred charges		**29**	**43**
		9,955	**11,692**

Equity & liabilities
€ million

	Note	12/31/03	12/31/02
Capital stock		376	376
Additional paid-in capital		795	795
Reserves retained from earnings		1,437	1,406
Net earnings		110	88
Other comprehensive income		2	(35)
Equity of MAN AG stockholders		**2,720**	**2,630**
Minority interests		64	261
Equity	(14)	**2,784**	**2,891**
Pension accruals	(15)	1,681	2,052
Current tax accruals		81	118
Other accruals	(16)	1,515	1,876
Accruals		**3,277**	**4,046**
Financial liabilities		987	1,538
Due to/from intragroup financing		–	–
Trade payables		1,752	1,846
Sundry liabilities		712	830
Liabilities	(17)	**3,451**	**4,214**
Deferred tax liabilities	(6)	**391**	**476**
Deferred income		**52**	**65**
		9,955	**11,692**

	thereof	Industrial Business		Financial Services		Continued operations	Discontinued operations
	12/31/03	12/31/02	12/31/03	12/31/02	12/31/03	12/31/02	12/31/02
	400	399	1	1	401	400	120
	1,796	1,887	256	200	2,052	2,087	209
	17	26	705	762	722	788	–
	122	131	3	2	125	133	25
	2,335	**2,443**	**965**	**965**	**3,300**	**3,408**	**354**
	3,087	3,306	20	8	3,107	3,314	459
	(1,199)	(1,220)	(1)	–	(1,200)	(1,220)	(459)
	2,231	2,145	620	693	2,851	2,838	455
	866	590	46	38	912	628	151
	168	181	–	–	168	181	487
	377	276	3	9	380	285	324
	5,530	**5,278**	**688**	**748**	**6,218**	**6,026**	**1,417**
	405	**383**	**3**	**8**	**408**	**391**	**53**
	27	**30**	**2**	**2**	**29**	**32**	**11**
	8,297	**8,134**	**1,658**	**1,723**	**9,955**	**9,857**	**1,835**

	12/31/03	12/31/02	12/31/03	12/31/02	12/31/03	12/31/02	12/31/02
	2,591	**2,357**	**129**	**124**	**2,720**	**2,481**	**149**
	64	65	–	–	64	65	196
	2,655	**2,422**	**129**	**124**	**2,784**	**2,546**	**345**
	1,679	1,640	2	2	1,681	1,642	410
	81	112	0	0	81	112	6
	1,483	1,366	32	30	1,515	1,396	480
	3,243	**3,118**	**34**	**32**	**3,277**	**3,150**	**896**
	688	1,511	299	0	987	1,511	27
	(958)	(1,372)	958	1,334	–	(38)	38
	1,587	1,425	165	152	1,752	1,577	269
	704	688	8	7	712	695	135
	2,021	**2,252**	**1,430**	**1,493**	**3,451**	**3,745**	**469**
	359	**324**	**32**	**35**	**391**	**359**	**117**
	19	**18**	**33**	**39**	**52**	**57**	**8**
	8,297	**8,134**	**1,658**	**1,723**	**9,955**	**9,857**	**1,835**

MAN Group
Cash flow statement 2003

€ million

	MAN Group	
	2003	2002
Cash & cash equivalents at beginning of period	**609**	**571**
Result from ordinary operations	303	219
Statutory taxes	(61)	(55)
Amortization/depreciation/write-down of fixed assets	568	660
Changes in pension accruals	49	61
Other noncash expenses and income	(2)	0
Cash earnings	**857**	**885**
Elimination of net gain/loss on fixed-asset disposal	(66)	(35)
Changes in inventories	187	872
Changes in prepayments received	(57)	(916)
Changes in trade receivables	(68)	216
Changes in trade payables	84	11
Changes in other accruals	43	(158)
Changes in other receivables and current assets	(7)	(25)
Other changes in working capital	(49)	(153)
Cash provided by operating activities	**924**	**697**
Purchase of sundry tangible and intangible assets	(424)	(463)
Purchase of financial assets	(13)	(28)
Acquisition of consolidated subsidiaries	(8)	(34)
Cash & cash equivalents of consolidated subsidiaries taken over	–	2
Increase in assets leased out	(245)	(472)
Decrease in assets leased out	134	300
Other cash inflow from fixed-asset disposal	221	104
Cash used in investing activities	**(335)**	**(591)**
Cash inflow from the conversion of preferred into common stock	–	101
Intragroup capital increases	–	–
Intragroup dividend distribution	–	–
Dividend payment	(93)	(99)
Sale/(purchase) of securities	(167)	275
Change in financial liabilities	(363)	(257)
Cash (used in)/provided by financing activities	**(623)**	**20**
Net change in cash & cash equivalents	**(34)**	**126**
Change due to cash & cash equivalents redefined as of 1/1/2002	–	(78)
Changes in cash & cash equivalents due to changed consolidated group	(187)	2
Parity-related changes in cash & cash equivalents	(8)	(12)
Cash & cash equivalents at end of period	**380**	**609**

thereof	Industrial Business		Financial Services		**Continued operations**		Discontinued operations	
	2003	2002	2003	2002	2003	2002	2003	2002
	276	**426**	**9**	**36**	**285**	**462**	**324**	**109**
	235	196	26	17	261	213	42	6
	(49)	(85)	(13)	(6)	(62)	(91)	1	36
	355	422	170	171	525	593	43	67
	46	55	0	0	46	55	3	6
	(2)	6	0	0	(2)	6	0	(6)
	585	**594**	**183**	**182**	**768**	**776**	**89**	**109**
	(18)	(21)	3	(2)	(15)	(23)	(51)	(12)
	177	564	(12)	9	165	573	22	299
	1	(585)	1	(3)	2	(588)	(59)	(328)
	(151)	175	28	(27)	(123)	148	55	68
	90	(51)	31	51	121	0	(37)	11
	23	(95)	2	2	25	(93)	18	(65)
	0	(7)	(6)	(13)	(6)	(20)	(1)	(5)
	(28)	(142)	(3)	(2)	(31)	(144)	(18)	(9)
	679	**432**	**227**	**197**	**906**	**629**	**18**	**68**
	(322)	(346)	(80)	(52)	(402)	(398)	(22)	(65)
	(10)	(27)	–	–	(10)	(27)	(3)	(1)
	(8)	(14)	–	–	(8)	(14)	–	(20)
	–	–	–	–	–	–	–	2
	(9)	(7)	(236)	(465)	(245)	(472)	–	–
	15	5	119	295	134	300	–	–
	198	75	16	4	214	79	7	25
	(136)	**(314)**	**(181)**	**(218)**	**(317)**	**(532)**	**(18)**	**(59)**
	–	101	–	–	–	101	–	–
	–	(60)	–	60	–	–	–	–
	21	17	(21)	(11)	–	6	–	(6)
	(93)	(93)	–	–	(93)	(93)	0	(6)
	3	10	–	–	3	10	(170)	265
	(359)	(162)	(30)	(53)	(389)	(215)	26	(42)
	(428)	**(187)**	**(51)**	**(4)**	**(479)**	**(191)**	**(144)**	**211**
	115	**(69)**	**(5)**	**(25)**	**110**	**(94)**	**(144)**	**220**
	–	(78)	–	–	–	(78)	–	–
	–	5	–	(2)	–	3	(187)	(1)
	(15)	(8)	0	0	(15)	(8)	7	(4)
	376	**276**	**4**	**9**	**380**	**285**	**–**	**324**

MAN Group
Statement of changes in equity 2003

€ million

	Capital stock	Additional paid-in capital	Reserves retained from earnings	Net earnings	OCI	Minority interests	Total
Balance at Dec. 31, 2001	**395**	**675**	**1,412**	**88**	**(2)**	**294**	**2,862**
Withdrawal of treasury stock	(19)	19					
Premium from the conversion of preferred into common stock		101					101
Dividend payment				(88)		(11)	(99)
Net income for 2002				135		12	147
Transfer to reserves retained from earnings			47	(47)			
Currency translation effects			(46)				(46)
Changes in unrealized gains/losses					(33)	(26)	(59)
All other changes			(7)			(8)	(15)
Balance at Dec. 31, 2002	**376**	**795**	**1,406**	**88**	**(35)**	**261**	**2,891**
Dividend payment				(88)		(5)	(93)
Net income for 2003				227		8	235
Transfer to reserves retained from earnings			117	(117)			
Currency translation effects			(42)		2	(6)	(46)
Changes in unrealized gains/losses					19	6	25
Deconsolidation of SMS Group			(16)		16	(196)	(196)
All other changes			(28)			(4)	(32)
Balance at Dec. 31, 2003	**376**	**795**	**1,437**	**110**	**2**	**64**	**2,784**

Notes to the consolidated financial statements

General principles

The consolidated financial statements of MAN AG for the fiscal year ended December 31, 2003, have been prepared according to the IFRS/IAS of the International Accounting Standards Board (IASB) in force and effect as of balance sheet date. All Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable to fiscal 2003 have been applied.

The IFRS-based consolidated financial statements conform with the 7th EU Directive. Its exercise of the option offered in Art. 292a German Commercial Code ("HGB"), viz. to prepare consolidated financial statements according to internationally accepted accounting principles, has exempted MAN from the obligation to publish group accounts according to German accounting regulations.

Subject to the exceptions below, the accounting and valuation principles applied to and underlying these IFRS consolidated accounts are, moreover, equivalent to those permitted under HGB regulations. The following accounting and valuation methods used in MAN's Group accounts depart from German Commercial Code regulations:

– The IFRS require that goodwill be amortized to net income over a range not to exceed 20 years, while HGB provisions permit the offset of goodwill against the reserves retained from earnings.

– The IFRS require that deferred taxes on (i) all differences between tax bases and consolidated balance sheet values and (ii) tax loss carryovers be recognized. In contrast, the HGB demands in these cases that deferred taxes be recognized on all timing differences (i.e., reversing over time) between the values in the tax balance sheet and the consolidated balance sheet.

– The recognition of accruals according to IFRS is more restrictive than under HGB regulations. Expenses may not be provided for, since the recognition of accruals in line with IFRS is contingent on the existence of obligations to a third party. Exceptions to this rule are M&A-related and restructuring accruals.

– Pursuant to IFRS, profits from long-term manufacturing or construction contracts must be recognized according to the percentage of completion (PoC). The HGB principally prohibits the recognition of profits from long-term contracts until after the contract has been completed and accepted.

– According to IFRS, development costs of newly developed products and series are on certain conditions capitalized as intangible assets whereas the HGB prohibits any internally created intangibles assets from being capitalized.
– Under IFRS rules, financial instruments are recognized at their current (i.e., as of the balance sheet date) fair value, with the result that any reserves inherent in these instruments, depending on the latter's classification, are recognized either in net income or solely in equity. In contrast, such financial instruments are according to HGB stated at the lower of purchase cost or current value.

Disclosures and explanations required by the IFRS and the German Commercial Code for group accounts are either made or given on the face of the financial statements or in these notes.

With a view to deepening the insight into the MAN Group's net assets, financial position and results of operations, the consolidated financial statement data now additionally breaks down into Industrial Business and Financial Services. The latter segment provides within the MAN Group financial services for customers and group companies, including sales and capital expenditure financing and focusing on leasing commercial vehicles to customers. The balances from eliminating intragroup transactions between Financial Services and Industrial Business have been assigned to the latter segment.

After our stake in SMS was sold, the SMS Group retired from the MAN Group as of September 30, 2003. Under the terms of IAS 35, the SMS contributions to MAN's consolidated financial statements 2003 and 2002 are separately shown as discontinued operations.

In comparison to the prior year, we changed the disclosure method for two accounting technicalities:
– Deferred tax liabilities are no longer shown within accruals but in a separate line after liabilities.
– Within the cash inflow from operating activities, the cash flow statement separately discloses the cash earnings, i.e., the change in cash & cash equivalents attributable to the year's reported result.

The prior-year comparatives have been adjusted accordingly.

Methods of consolidation

Consolidation

Besides MAN AG as the parent, all subsidiaries are included (i) in which MAN AG holds (whether directly or indirectly) the majority of voting rights, or (ii) whose financial and business policies can be controlled by MAN AG under the articles of association of, or an intercompany or other contractual agreement with, any such subsidiary; case (ii) applies to Schwäbische Hüttenwerke GmbH as of December 31, 2003, and for the nine months ended September 30, 2003, also to SMS AG in both of which MAN AG holds/held 50% of the voting rights.

Companies acquired during the fiscal year are included p.r.t. as from the date of their acquisition, while those disposed of during the fiscal year are excluded from consolidation as from the date of transfer of beneficial ownership or, if insignificant, retroactively as from January 1, 2003.

Number of consolidated companies

	Germany	Abroad	Total
Included as of December 31, 2002	93	157	250
Newly included in 2003	5	12	17
SMS companies retired	(22)	(40)	(62)
Other companies excluded	(2)	(10)	(12)
Included as of December 31, 2003	**74**	**119**	**193**

For fiscal 2003, altogether 193 companies (down from 250) have been consolidated, i.e. 74 German (down from 93) and 119 foreign ones (down from 157). Versus the previous fiscal period, altogether 17 companies were newly consolidated, all firms acquired or newly formed in 2003, or not consolidated the year before due to their insignificance.

Altogether 74 companies retired from the consolidation group, through either divestment or merger with other consolidated subsidiaries, or due to their minor significance.

Divestment of SMS

A major divestment project involved the 62 SMS Group companies which retired from the consolidated group as MAN AG sold its stake in SMS AG. With economic effect as of October 1, 2003, MAN AG transferred its 51-percent stake in SMS AG to equity investment companies of the Weiss family that have held the remaining 49 percent. The sale and transfer were effected in two lots of 25.5 percent each, the first being transferred in fiscal 2003. For the remaining 25.5 percent, reciprocal put and call options have been negotiated, exercisable by MAN as from December 31, 2007.

The SMS Group has been included in MAN's consolidated financial statements p.r.t. for the 9 months ended September 30, 2003, and shown as a discontinued operation under the terms of IAS 35, the prior-year comparatives being disclosed separately. The gain from the disposal of the SMS stock is used to strengthen equity and as prudential reserve. €50 million thereof, transferred to MAN AG's reserves retained from earnings, has been recognized in the Group's EBT and net income after minority interests.

Associated affiliates

Five investees (down from six) are carried at equity as associated affiliates. The non-consolidated subsidiaries are in the aggregate of minor significance for the presentation of the MAN Group's net assets, financial position and results of operations.

Selected consolidated companies of the MAN Group are listed on the inside back cover page of this annual report. A complete listing of the MAN Group's shareholdings will be filed with the Commercial Register of the Local Court of Munich under no. HRB 78 706.

Consolidation principles

The consolidated financial statements are based on MAN AG's and its consolidated subsidiaries' annual financial statements as prepared in accordance with groupwide uniform accounting and valuation principles and certified by independent auditors.

The purchase method is used for capital consolidation, with due recognition in net income, by offsetting the purchase cost of an equity investment against its prorated equity at the date of acquisition. Where based on hidden reserves or burdens, any difference between cost and prorated equity is assigned to the subsidiary's assets and liabilities, as appropriate. Any remaining net equity under cost is capitalized as goodwill under intangible assets and amortized on a straight-line basis as a rule over ten to twenty years. The residual goodwill of deconsolidated companies is released to net income.

Any undistributed reserves earned after the date of initial consolidation are shown in the Group's reserves retained from earnings or as minority interests, as appropriate. The minority interests held by nongroup parties in the equity of consolidated subsidiaries are disclosed separately from MAN AG's stockholders' equity within the Group's equity.

All intercompany accounts (profits, gains, losses, income, expenses, receivables and payables) among companies included in the Group accounts are eliminated. Deferred taxes are calculated for consolidation transactions recognized in net income.

Affiliates carried at equity are included on the basis of their annual accounts as of December 31, 2003. The equity proratable to the Group is shown under financial assets. The Group's shares in their EBT and in income taxes are recognized in the Group's income from investments and in tax expense, respectively.

Currency translation

For the consolidated financial statements, the current-rate method (a.k.a. closing-rate method) is used to translate the annual accounts of non-Euroland companies. Balance sheet lines are translated at the current, and income statement captions at the annual average, rates. Differences from the currency translation versus the prior year of balance sheet captions are recognized in equity only. Therefore, equity shrank by an accumulated €47 million due to currency translation effects (€8 million thereof from the SMS Group's deconsolidation alone); this contrasts with a 5-percent climb in 2002.

In the fixed-asset schedule and accruals analysis, the fiscal year's opening and closing balances are translated at the applicable current rates, while for the remaining balance sheet lines, the annual average rates are used. Currency translation differences are shown separately in the currency adjustment column.

The euro exchange rates of major currencies are as follows:

	Current rate of €1 at		Average rate of €1 in	
	12/31/2003	12/31/2002	2003	2002
US dollar	1.2630	1.0487	1.1329	0.9442
Pound sterling	0.7048	0.6505	0.6911	0.6281
Danish krone	7.445	7.429	7.430	7.430
Swiss franc	1.5579	1.452	1.519	1.467
Swedish krona	9.0800	9.153	9.145	9.138
Polish zloty	4.7019	4.021	4.420	3.855
Turkish lira (in 1,000)	1,771.64	1,738.00	1,701.10	1,436.40
Japanese yen	135.05	124.39	131.31	117.71
South African rand	8.328	9.009	8.477	9.862

Accounting and valuation principles

Intangible assets

Intangible assets other than goodwill and capitalized development costs are capitalized at purchase cost and amortized on a straight-line basis over their useful lives, generally three to five years.

R&D costs are expensed. Excepted from this practice are the expenses incurred for the development of new products and series. Such expenses are capitalized from that year onwards in which the technical completion of the new development and its future marketability are secured. Amortization is charged per unit or on a straight-line basis over the estimated useful life of four to ten years.

Goodwill from capital consolidation is amortized to other operating expenses over ten to twenty years.

Tangible assets

Tangible assets are valued at purchase or production cost, less depreciation and, where appropriate, write-down. The production cost of internally manufactured tangible assets includes all direct costs, as well as prorated indirect production costs. Maintenance and repair (M&R) costs and interest costs are expensed in the period of their incurrence.

Tangible assets are depreciated according to the straight-line method over their estimated useful lives. Low-value assets (defined as assets at cost of €410 or less) are fully written off in the year of their purchase.

Tangible assets whose NRV and value in use have both decreased below net book value are written down accordingly.

The groupwide uniform asset depreciation ranges are based on the following useful lives:	
Buildings	20 to 50 years
Land improvements	8 to 20 years
Machinery and production plant	5 to 15 years
Factory and office equipment	3 to 10 years

Leasing

Most leased tangible assets are used under operating leases and hence recognized by the lessor. Where in isolated cases, the criteria of a capital lease (a.k.a. finance lease) are satisfied, these leased assets are capitalized pursuant to IAS 17 and depreciated. The property, plant and equipment leased within the MAN Group from MAN Financial Services (MFI) are shown in MFI’s balance sheet.

Products leased out under operating leases are recognized by the lessor (mainly MAN Financial Services) at production cost, unless sold to nongroup leasing firms for financing purposes, and depreciated over the underlying lease term. The MFI companies finance as lessors both tangible assets and the sale of products of MAN Group companies. The lease terms mostly cover less than 90 percent of the leased assets' useful life, the leases themselves being generally configured as operating leases to ensure that the leased assets are assigned to MFI.

Investments

Within investments, shares in major associated affiliates are stated at equity. The remaining investments are carried at the lower of acquisition cost or fair value. As an exception, investments for which a market value can be reliably determined are stated at fair value, the difference from their book value being recognized in equity only, within other comprehensive income, duly accounting for deferred taxes.

Securities

Long- and short-term securities if, as usual, available for sale are fair-valued. The unrealized changes in their fair value are principally recognized in equity only (within other comprehensive income) after deducting deferred taxes. Long-term securities held either to maturity or in connection with pension plans are recognized at amortized cost.

Current assets

Inventories are stated at the lower of cost or net realizable values (NRV). Production cost includes all direct costs, as well as proratable indirect fixed and variable production overheads. Overhead portions are mostly determined on a normal, in all other cases the actual, workload basis. General administrative and selling expenses are not capitalized, nor are any debt interest costs. Raw materials and merchandise are generally valued at average purchase cost. Risks resulting from slow-moving items and from the obsolescence or reduced utility of inventories are adequately and sufficiently allowed for while uncompleted contracts that involve impending losses are stated at their net realizable values.

Long-term manufacturing and construction contracts are recognized according to the percentage-of-completion (PoC) method by apportioning pro rata temporis the agreed revenues earned from, and costs incurred for, contract progress and showing such net revenues, after deduction of customer prepayments, as trade receivables. Such progress, or percentage of completion, is determined either on a cost-to-cost basis (i.e., from the ratio the costs incurred by balance sheet date bear to the expected total contract costs), or on the basis of agreed milestones.

Where the outcome (P/L) of such a long-term contract cannot be reliably estimated, revenues are recognized only at the amount of contract costs actually incurred. Any prorated profit will not be realized until after completion has reached a stage where future contract costs and revenues can be reliably estimated.

Receivables and other current assets are carried at amortized cost. Adequate specific allowances are charged to bad debts and other receivables exposed to identifiable risks. A flat allowance for doubtful accounts provides for the general collection risk on the basis of empirical data.

Monetary assets classified as available for sale are fair-valued, the difference between amortized cost and fair value being recognized in equity only (within other comprehensive income), after allowing for deferred taxes.

The original values of fixed or current assets are reinstated wherever the grounds for any write-down in prior periods do not exist any longer.

Pension accruals provide for future pension obligations according to the projected unit credit (PUC) method, duly taking into account future payroll and pension increases.

Accruals, liabilities

Warranty accruals provide for the obligations derived from the total warranty expenses of the warranty period and the sale of warranted products, as well as for specific warranties for known claims. Accrued costs yet to be billed and other business obligations are provided for at the best estimate of future cash outflows or, where owed in kind, the future production cost thereof. The remaining accruals provide for all identifiable risks and uncertain commitments at the amount expected to be realized or utilized. Accruals that include an interest portion are discounted. Liabilities are principally stated at their settlement amount.

Deferred taxation

Deferred taxes are recognized for temporary differences between the values in the tax and the consolidated financial statements, as well as for consolidation transactions recognized in net income, besides for tax loss carryovers.

Deferred tax assets are not recognized unless the attendant tax reductions will probably materialize. Deferred taxes account only for those amounts of loss carryovers for which taxable income sufficient for realizing the deferred tax assets is expected in the future.

Deferred taxes are calculated at the tax rates current at balance sheet date; in Germany, this rate is an unchanged 39.4 percent.

Financial derivatives and hedges

A financial derivative is a financial instrument whose value changes in response to changes in other variables, whose purchase cost is mostly little or nil and which is settled at some future date. Financial derivatives of relevance to the MAN Group are currency forwards and interest rate swaps.

Financial derivatives are measured at fair (market) value, which is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a transaction at arm’s length. Within the MAN Group, presently currency forwards, foreign exchange options and interest rate swaps are contracted. The fair value of currency forwards is determined on the basis of the forward rate as of December 31 for the remaining term of each contract in relation to the contracted forward rate. The fair value of foreign exchange options is determined by means of generally accepted pricing techniques, key factors being the residual term, the reference interest rate and the current exchange rate and its volatility. The fair value of interest rate swaps is obtained by discounting the expected future cash flows over the remaining contract term on the basis of current market rates and the yield curve. If their fair value is positive, financial derivatives are shown within receivables and other current assets and, if negative, as trade payables.

For derivative financial instruments that bear a hedging relationship, the changes in fair value in the fiscal year are recognized in accordance with the underlying hedging relationship.

If the currency forward hedges an effective underlying transaction (including, without being limited to, an uncompleted contract or a trade receivable), it is a fair value hedge (FVH). In this case, changes in the currency forward's fair value correspond to opposite changes in the hedged underlying transaction's fair value. In the balance sheet, the fair-value changes are recognized in the appropriate line of the underlying transaction, mainly trade receivables, inventories, or trade payables. In the income statement, changes in the fair value of hedge and underlying transaction have on balance no effect, the individual items being mutually offset within other operating expenses.

Cash flow hedges (CFHs) basically include upstream exchange rate hedges for future sales revenues from series manufacture, for high-probability customer projects, as well as interest rate hedges for refinancing customer financing. In this case, any change in fair value is recognized in a separate equity line (other comprehensive income) after deducting deferred taxes.

Any financial derivatives where the stringent requirements of IAS 39 for a hedging relationship are not met are considered instruments held for trading, and for these, any differences from fair value remeasurement are immediately and fully recognized in the income statement.

For details of the MAN Group's hedging strategy, see Note (20).

Income, gains, expenses and losses

Net sales are recognized as and when the underlying products or goods have been delivered or the services rendered, always net after all sales deductions, such as cash and other discounts, allowances granted to customers, etc. Revenues from long-term construction contracts are recognized on a percentage-of-completion basis (see the above comments on current assets).

Operating expenses are recorded when the underlying products or services are utilized, whereas expenses for advertising and sales promotion and other sales-related expenses are recognized when incurred. We provide for accrued warranty obligations when products are sold. Interest expense and other cost of debt are expensed in the period.

Estimates

Preparing the consolidated financial statements requires certain assumptions and estimates to be made for the valuation of some assets and liabilities and the disclosure of contingent liabilities, as well as for the recognition of income and expenses. Actual values may differ from those estimates.

Cash flow statement

This statement breaks down cash flows into those from operating, investing and financing activities. Effects of changes in the group of consolidated companies are eliminated in the lines concerned. The net parity change in cash & cash equivalents is shown in a separate line.

In the cash flow from operating activities, the noncash operating expenses and income, as well as the gains from the disposal of fixed assets (incl. investments) are all eliminated. The cash earnings are shown in a separate line within this caption and represent the change in cash & cash equivalents attributable to the result reported for the year. The interest income of €48 million (down from €71 million), interest expense of €115 million (down from €125 million), and income taxes paid at €92 million (up from €75 million) are allocated to operating activities. The net result from investments stated at equity is not included unless distributed.

The cash flow from investing activities reflects the capital expenditures for fixed assets, the intragroup-financed additions to assets leased out, the cash outflow for acquiring shares in consolidated subsidiaries, and the cash inflow from the disposal of fixed assets (including consolidated investments).

The cash flow from financing activities mirrors the cash dividends distributed, capital paid in by stockholders, repurchased treasury stock, cash inflow from and outflow for securities held as liquidity reserve, as well as financial liabilities redeemed or newly raised. Cash & cash equivalents comprise cash on hand and in bank, as well as the receivables from intragroup finance transactions.

Segment reporting

Comments on segment data

The MAN Group has been re-segmented for reporting purposes in analogy to the consolidated financial statements, breaking down into Industrial Business, Financial Services and Discontinued Operations.

Industrial Business comprises Commercial Vehicles, Printing Machines, Diesel Engines, Turbomachines, Further Industrial Holdings, and Industrial Services.

The Commercial Vehicles, Printing Machines, Diesel Engines, Turbomachines and Industrial Services corporate divisions are identical with the MAN Nutzfahrzeuge, MAN Roland Druckmaschinen, MAN B&W Diesel, MAN Turbomaschinen and Ferrostaal subgroups. Under the umbrella of Further Industrial Holdings, primarily the following subgroups are subsumed: RENK, MAN Technologie, MAN DWE, as well as Schwäbische Hüttenwerke.

The subgroup allocation corresponds to the MAN Group's breakdown by and into corporate divisions used for internal management reporting purposes.

Order intake data has been derived from the Group's reporting system and not been audited. Intersegment transfers are based on fair market prices as if at arm's length.

Amortization, depreciation and write-down refer to the fixed assets allocated to each corporate division.

Segment assets comprise fixed and current assets, as well as deferred tax assets and prepaid expenses & deferred charges. Segment debt covers accruals, liabilities, deferred tax liabilities, and deferred income.

Key rates of return

This annual report highlights EBIT margin, ROS and ROCE as indicators to control and assess performance by the Group and its corporate divisions with a view to increasing shareholder value. The EBIT margin and the return on sales (ROS) are obtained by dividing net sales into EBIT or EBT, respectively, and used to rate the profitability of current operations.

The return on capital employed (ROCE) is a creditor-oriented indicator that mostly appeals to investors and lenders; it is determined by dividing earnings before taxes and before interest expense by average capital employed. CE equals equity plus interest-bearing debt, the latter including interest-bearing financial liabilities, pension accruals and deferred income.

Further segment data: region-by-region breakdown

€ million

	Germany	Other Europe	All other regions	Total
2003				
Total assets at Dec. 31	7,417	1,999	539	9,955
Capital expenditures	435	242	13	690
Amortization/depreciation/write-down	385	169	14	568
Headcount at Dec. 31	41,497	19,141	3,520	64,158
2002				
Total assets at Dec. 31	7,232	3,557	903	11,692
Capital expenditures	660	306	31	997
Amortization/depreciation/write-down	456	186	18	660
Headcount at Dec. 31	48,863	20,838	5,353	75,054

€ million

	Commercial Vehicles	Printing Machines	Diesel Engines	Turbo-machines
2003				
Segment order intake	**6,772**	**1,575**	**1,460**	**658**
less intersegment orders	(471)	(75)	(28)	(43)
Group order intake	6,301	1,500	1,432	615
Total sales of the segments	**6,707**	**1,516**	**1,312**	**567**
less intersegment transfers	(480)	(70)	(37)	(5)
External net sales	6,227	1,446	1,275	562
Cash earnings	**297**	**16**	**67**	**32**
EBITDA	**385**	**19**	**100**	**40**
Amortization/depreciation	(182)	(45)	(42)	(11)
EBIT	**203**	**(26)**	**58**	**29**
Interest	(82)	(11)	(14)	(6)
EBT	**121**	**(37)**	**44**	**23**
Additions to tangible/intangible assets	187	41	41	10
Additions to assets leased out	1	0	0	0
Additions to consolidated subsidiaries and other financial assets	2	0	1	1
Total assets at Dec. 31	**4,009**	**1,025**	**898**	**395**
Total debt at Dec. 31	**3,111**	**714**	**657**	**325**
Employees at Dec. 31	**34,094**	**9,465**	**6,625**	**2,494**
EBIT margin	3.0%	(1.7%)	4.4%	5.1%
Return on sales (ROS)	1.8%	(2.4%)	3.4%	4.0%
Return on capital employed (ROCE)	9.4%	(4.4%)	11.4%	12.4%

2002				
Segment order intake	**6,525**	**1,542**	**1,363**	**539**
less intersegment orders	(422)	(65)	(36)	(21)
Group order intake	6,103	1,477	1,327	518
Total sales of the segments	**6,564**	**1,808**	**1,408**	**530**
less intersegment transfers	(425)	(80)	(38)	(3)
External net sales	6,139	1,728	1,370	527
Cash earnings	**266**	**57**	**82**	**34**
EBITDA	**348**	**60**	**125**	**40**
Amortization/depreciation	(246)	(41)	(42)	(10)
EBIT	**102**	**19**	**83**	**30**
Interest	(89)	(9)	(15)	(8)
EBT	**13**	**10**	**68**	**22**
Additions to tangible/intangible assets	185	50	50	11
Additions to assets leased out	2	0	0	0
Additions to consolidated subsidiaries and other financial assets	16	14	1	0
Total assets at Dec. 31	**3,911**	**1,014**	**948**	**419**
Total debt at Dec. 31	**3,003**	**723**	**687**	**352**
Employees at Dec. 31	**34,398**	**10,300**	**6,889**	**2,500**
Like-for-like headcount (consolidation group 2003)	**34,449**	**10,262**	**6,889**	**2,500**
EBIT margin	1.6%	1.1%	5.9%	5.7%
Return on sales (ROS)	0.2%	0.6%	4.9%	4.2%
Return on capital employed (ROCE)	4.3%	4.6%	16.8%	11.7%

Further Industrial Holdings	Industrial Services	Financial Services	Holding Company	Consolidation	Continued operations	Discontinued operations	Group
894	2,738	607	0	(960)	13,744	1,152	14,896
(45)	(74)	(224)	0	960	0	0	0
849	2,664	383	0	0	13,744	1,152	14,896
837	2,880	627	0	(900)	13,546	1,475	15,021
(26)	(58)	(224)	0	900	0	0	0
811	2,822	403	0	0	13,546	1,475	15,021
59	65	183	33	16	768	89	857
92	106	256	(8)	(22)	968	77	1,045
(42)	(33)	(170)	(3)	3	(525)	(43)	(568)
50	73	86	(11)	(19)	443	34	477
(10)	(8)	(60)	8	1	(182)	8	(174)
40	65	26	(3)	(18)	261	42	303
24	21	80	1	(3)	402	22	424
8	0	236	0	0	245	0	245
3	1	0	8	2	18	3	21
1,091	1,565	1,658	3,994	(4,680)	9,955	0	9,955
641	1,234	1,529	2,053	(3,093)	7,171	0	7,171
4,500	6,689	87	204	0	64,158	–	64,158
6.0%	2.5%	–	–	–	3.3%	–	3.2%
4.8%	2.3%	–	–	–	1.9%	–	2.0%
7.9%	15.0%	–	–	–	8.3%	–	8.7%

818	3,178	602	0	(848)	13,719	2,001	15,720
(22)	(65)	(217)	0	848	0	0	0
796	3,113	385	0	0	13,719	2,001	15,720
843	2,916	628	0	(847)	13,850	2,190	16,040
(27)	(56)	(218)	0	847	0	0	0
816	2,860	410	0	0	13,850	2,190	16,040
56	76	182	18	5	776	109	885
78	99	255	6	(27)	984	67	1,051
(62)	(25)	(171)	(2)	6	(593)	(67)	(660)
16	74	84	4	(21)	391	0	391
(6)	11	(67)	5	0	(178)	6	(172)
10	85	17	9	(21)	213	6	219
35	17	52	3	(5)	398	65	463
9	0	465	0	(4)	472	0	472
12	6	0	0	(8)	41	21	62
1,118	1,708	1,723	3,588	(4,572)	9,857	1,835	11,692
700	1,297	1,599	1,822	(2,872)	7,311	1,490	8,801
4,678	6,598	77	195	0	65,635	9,419	75,054
4,625	7,099	80	203	0	66,107	0	66,107
1.9%	2.5%	–	–	–	2.8%	0.0%	2.4%
1.2%	2.9%	–	–	–	1.5%	0.3%	1.4%
3.4%	14.8%	–	–	–	7.1%	5.5%	6.9%

MAN Group: Summarized financial statements of the segments

€ million

	Commercial Vehicles		Printing Machines		Diesel Engines	
	2003	2002	2003	2002	2003	2002
Fixed assets	**1,347**	**1,385**	**263**	**279**	**217**	**225**
Inventories	1,332	1,348	453	480	424	429
Prepayments received	(24)	(32)	(296)	(302)	(74)	(55)
Receivables and other current assets, prep. exp. & def. charges	1,208	1,087	367	410	284	279
Securities, cash & cash equivalents	19	20	205	113	22	35
Current assets, prepaid expenses & deferred charges	**2,535**	**2,423**	**729**	**701**	**656**	**688**
Deferred tax assets	**127**	**103**	**33**	**34**	**25**	**35**
Total assets	**4,009**	**3,911**	**1,025**	**1,014**	**898**	**948**
Equity	**898**	**908**	**311**	**291**	**241**	**261**
Pension accruals	618	602	238	229	122	119
Tax accruals	13	20	2	4	4	4
Other accruals	775	728	212	221	115	120
Financial liabilities	718	695	2	3	168	201
All other liabilities, deferred income	810	792	230	234	230	230
Deferred tax liabilities	177	166	30	32	18	13
Total liabilities	**3,111**	**3,003**	**714**	**723**	**657**	**687**
Total equity and liabilities	**4,009**	**3,911**	**1,025**	**1,014**	**898**	**948**
Net sales	**6,707**	**6,564**	**1,516**	**1,808**	**1,312**	**1,408**
Cost of sales	(5,523)	(5,566)	(1,197)	(1,378)	(998)	(1,063)
Gross margin	**1,184**	**998**	**319**	**430**	**314**	**345**
Selling expenses	(461)	(469)	(140)	(150)	(121)	(120)
General administrative expenses	(233)	(241)	(91)	(89)	(67)	(68)
Other income and expenses	(287)	(186)	(114)	(172)	(68)	(74)
Earnings before interest and taxes (EBIT)	**203**	**102**	**(26)**	**19**	**58**	**83**
Net interest result	(82)	(89)	(11)	(9)	(14)	(15)
Result from ordinary operations (EBT)	**121**	**13**	**(37)**	**10**	**44**	**68**
Order intake	**6,772**	**6,525**	**1,575**	**1,542**	**1,460**	**1,363**
in Germany	2,402	2,323	345	273	325	159
abroad	4,370	4,202	1,230	1,269	1,135	1,204
Order backlog at Dec. 31	**1,409**	**1,352**	**847**	**904**	**1,003**	**870**
Employees at Dec. 31	**34,094**	**34,398**	**9,465**	**10,300**	**6,625**	**6,889**
in Germany	21,111	21,840	7,806	8,522	2,673	2,744
abroad	12,983	12,558	1,659	1,778	3,952	4,145
Annual average headcount	**34,492**	**34,535**	**9,939**	**10,570**	**6,748**	**7,218**
Personnel expenses	**1,598**	**1,542**	**564**	**595**	**368**	**386**
Key figures						
Capital expenditures (incl. financial investments)	190	203	41	64	42	51
Cash earnings	297	266	16	57	67	82
EBIT margin	3.0%	1.6%	(1.7%)	1.1%	4.4%	5.9%
Return on sales (ROS)	1.8%	0.2%	(2.4%)	0.6%	3.4%	4.9%
Return on capital employed (ROCE)	9.4%	4.3%	(4.4%)	4.6%	11.4%	16.8%

Turbomachines		Further Industrial Holdings		Industrial Services		Financial Services	
2003	2002	2003	2002	2003	2002	2003	2002
88	**91**	**311**	**335**	**185**	**203**	**965**	**965**
157	153	255	269	469	608	20	8
(56)	(44)	(178)	(204)	(586)	(567)	(1)	0
189	168	259	246	676	677	668	733
2	39	408	432	732	711	3	9
292	**316**	**744**	**743**	**1,291**	**1,429**	**690**	**750**
15	**12**	**36**	**40**	**89**	**76**	**3**	**8**
395	**419**	**1,091**	**1,118**	**1,565**	**1,708**	**1,658**	**1,723**
70	**67**	**450**	**418**	**331**	**411**	**129**	**124**
61	58	306	304	235	230	2	2
0	1	5	10	9	22	0	0
23	24	100	95	121	104	32	30
81	144	50	84	22	146	298	0
134	109	146	170	779	727	1,165	1,532
26	16	34	37	68	68	32	35
325	**352**	**641**	**700**	**1,234**	**1,297**	**1,529**	**1,599**
395	**419**	**1,091**	**1,118**	**1,565**	**1,708**	**1,658**	**1,723**
567	**530**	**837**	**843**	**2,880**	**2,916**	**627**	**628**
(442)	(406)	(700)	(707)	(2,545)	2,627	(543)	(560)
125	**124**	**137**	**136**	**335**	**289**	**84**	**68**
(58)	(57)	(39)	(40)	(139)	(122)	(4)	(5)
(32)	(34)	(39)	(42)	(105)	(92)	(5)	(3)
(6)	(3)	(9)	(38)	(18)	(1)	11	24
29	**30**	**50**	**16**	**73**	**74**	**86**	**84**
(6)	(8)	(10)	(6)	(8)	11	(60)	(67)
23	**22**	**40**	**10**	**65**	**85**	**26**	**17**
658	**539**	**894**	**818**	**2,738**	**3,178**	**607**	**602**
133	108	486	448	460	441	462	405
525	431	408	370	2,278	2,737	145	197
450	**372**	**1,049**	**1,009**	**2,186**	**2,459**	**657**	**653**
2,494	**2,500**	**4,500**	**4,678**	**6,689**	**6,598**	**87**	**77**
1,668	1,693	4,301	4,473	3,670	3,881	64	57
826	807	199	205	3,019	2,717	23	20
2,510	**2,503**	**4,535**	**4,837**	**7,009**	**6,768**	**85**	**80**
180	**170**		**280**	**336**	**316**	**6**	**3**
11	11	35	56	22	23	316	517
32	34	59	56	65	76	183	182
5.1%	5.7%	6.0%	1.9%	2.5%	2.5%	–	–
4.0%	4.2%	4.8%	1.2%	2.3%	2.9%	–	–
12.4%	11.7%	7.9%	3.4%	15.0%	14.8%	–	–

Notes to the consolidated income statement

(1) Sales by geographical markets

€ million	2003	2002
Germany	4,044	4,212
Other EU	4,411	4,659
Other Europe	1,391	1,474
Asia	2,526	2,427
Americas	1,905	2,365
Africa	633	771
Australia and Oceania	111	132
	15,021	**16,040**

(2) Other operating income

€ million	2003	2002
Income from other trade business, net	88	76
Gains from foreign exchange and financial instruments	39	49
Income from the release of accruals	32	65
Gains from the disposal of fixed assets	24	44
Miscellaneous	310	169
	493	**403**

The income from the release of accruals refers to the portion not assigned to functional expenses. Its decrease is mainly due to the disposal of the SMS Group; for this disposal's impact on earnings, see page 107. The miscellaneous other operating income originates from a plethora of individual sources.

(3) Other operating expenses

€ million	2003	2002
Research & development expenses	346	345
Provisions in the year	199	131
Allowances for current assets	116	34
Losses on foreign exchange and hedges	32	44
Amortization of goodwill from capital consolidation	30	34
Miscellaneous	236	238
	959	**826**

This caption comprises the expenses not assigned to any of the functional expense categories (primarily to cost of sales); R&D expenses reflect only such portion as is neither contract-related production cost nor capitalized development costs. One reason why the provisions in the year and the allowances for current assets mounted was that the corresponding prior-year lines included income of the SMS Group from the utilization of such provisions/allowances. The miscellaneous other operating expenses were incurred for legal, audit, counseling and consultancy fees, functionally non-allocable personnel expenses, financing expenses, as well as a plurality of single items.

(4) Income from investments

€ million

	2003	2002
Income from P&L transfer agreements	3	6
Income from shares in associated affiliates	2	0
Income from other investments	5	9
Expenses from loss absorption	(2)	(1)
Write-down of investments	(3)	(19)
	5	**(5)**

The income from investments includes €5 million (down from €11 million) of income from, and €1 million (virtually unchanged) of expenses to, nonconsolidated Group companies.

(5) Net interest result

€ million

	2003	2002
Interest and similar income	48	71
Interest and similar expenses	(115)	(125)
Interest portion of addition to pension accruals	(107)	(118)
	(174)	**(172)**

(6) Income taxes

€ million	2003	2002
Current taxes	61	55
Deferred taxes	7	17
	68	**72**

Reconciliation of EBT to income tax expense:
€ million and %

	2003	%	2002	%
EBT (earnings before taxes)	**303**	**100.0**	**219**	**100.0**
Calculated corporate income tax	85	28.0	58	26.4
Municipal trade tax in Germany	10	3.3	10	4.7
Non-utilization of, and adjustments to, tax loss carryovers	22	7.3	14	6.4
Foreign tax rate differentials	5	1.6	4	1.9
Goodwill amortization	5	1.6	7	3.3
Tax-free income	(18)	(5.9)	(5)	(2.4)
Nonperiod taxes	(35)	(11.6)	(14)	(6.5)
Other	(6)	(2.0)	(2)	(0.8)
	68	**22.3**	**72**	**33.0**

The corporate income tax was calculated by using the tax rate of 26.5 percent applicable in Germany (including the increase under the Flood Victims Solidarity Act), and adding the solidarity surtax of 5.5 percent thereof, hence a total 28.0 percent, which was applied to EBT.

While loss carryovers utilizable for an indefinite period of time exist in Germany for corporate income and municipal trade tax purposes at a total €6 million (down from €67 million) and abroad at €298 million (down from €343 million), their recognition was waived due to vague realizability. Additional loss carryovers are available outside of Germany but subject to expiration.

The deferred taxes are allocable to the following balance sheet lines:
€ million

	12/31/2003	12/31/2002
Deferred tax assets		
Pension accruals	112	117
Inventories and receivables	53	68
Other accruals	120	108
Loss carryovers	112	149
Other	11	2
	408	**444**
Deferred tax liabilities		
Fixed assets	250	236
Inventories and receivables	101	194
Untaxed/special reserves in sep. fin. statements	12	25
Other accruals	28	21
	391	**476**

(7) Earnings per share (EpS)

	2003	2002
Net income after minority interests (€ million)	227	135
Weighted average number of shares issued and outstanding (million)	147.0	147.0
EpS (€)	1.54	0.92
EpS, continued operations (€)	1.25	0.91

In accordance with IAS 33, the number of shares outstanding on an annual average is divided into the Group's net income after minority interests to obtain the earnings per share. No unexercised stock options existed to dilute earnings per share, whether at December 31, 2003 or 2002.

(8) Additional notes to the consolidated income statement

The cost of sales includes the following cost of materials:
€ million

	2003	2002
Cost of raw materials, supplies, and merchandise purchased	7,108	8,146
Cost of services purchased	847	753
	7,955	**8,899**

Personnel expenses break down as follows:
€ million

	2003	2002
Wages and salaries	3,102	3,184
Social security taxes, pension expense and related employee benefits	706	744
	3,808	**3,928**

Pension expense does not include the interest portion contained in the period's pension provision at €107 million (down from €118 million).

On annual average, the MAN Group employed:
Headcount

	2003	2002
Commercial Vehicles	34,492	34,535
Printing Machines	9,939	10,570
Diesel Engines	6,748	7,218
Turbomachines	2,510	2,503
Further Industrial Holdings	4,535	4,837
Industrial Services	7,009	6,768
Financial Services	85	80
MAN AG	203	197
	65,521	**66,708**
SMS Group	6,934	9,638
	72,455	**76,346**

The SMS Group retired from the consolidation group as of September 30, 2003. The 2003 average includes SMS p.r.t. at $^{9}/_{12}$.

Notes to the consolidated balance sheet

(9) Fixed-asset schedule

€ million

	At cost						
	Balance at Dec. 31, 2002	Change in consolidation group	Additions	Book transfers	Disposals	Currency translation differences	Balance at Dec. 31, 2003
Licenses, software, sim. rights and assets	152	(46)	26	1	(16)	(2)	115
Development costs	196	(2)	61	0	0	0	255
Goodwill from consolidation	479	(151)	2	0	0	(5)	325
Intangible assets	**827**	**(199)**	**89**	**1**	**(16)**	**(7)**	**695**
Land, equivalent titles, and buildings (including buildings on leased land)	2,399	(247)	32	18	(46)	(20)	2,136
Production plant and machinery	2,427	(288)	130	53	(141)	(22)	2,159
Other plant, factory & office equipment	1,548	(135)	122	8	(101)	(14)	1,428
Prepayments made, construction in progress	87	0	51	(84)	(20)	(3)	31
Tangible assets	**6,461**	**(670)**	**335**	**(5)**	**(308)**	**(59)**	**5,754**
Assets leased out	**1,103**	**0**	**245**	**4**	**(253)**	**(37)**	**1,062**
Shares in nonconsolidated Group companies	129	(29)	7	(3)	(5)	(1)	98
Shares in associated affiliates	4	0	1	0	0	0	5
Other investments	47	(16)	4	3	(3)	(1)	34
Other long-term securities	39	(4)	0	0	(4)	0	31
Long-term loans	31	(3)	1	0	(4)	0	25
Financial assets	**250**	**(52)**	**13**	**0**	**(16)**	**(2)**	**193**
Fixed assets	**8,641**	**(921)**	**682**	**0**	**(593)**	**(105)**	**7,704**

The other long-term securities mainly provide cover for non-German Group company pension funds and are recognized at cost. Their fair value totals €20 million (down from €28 million).

The assets leased out were mostly commercial vehicles.

Accumulated amortization, depreciation, write-down							Net book values	
Balance at Dec. 31, 2002	Change in consolidation group	Charged in fiscal year	Book transfers	Disposals	Currency translation differences	Balance at Dec. 31, 2003	Balance at Dec. 31, 2003	Balance at Dec. 31, 2002
98	(26)	26	0	(12)	0	86	29	54
58	0	40	0	0	0	98	157	138
151	(69)	30	0	0	(2)	110	215	328
307	**(95)**	**96**	**0**	**(12)**	**(2)**	**294**	**401**	**520**
1,138	(160)	64	(4)	(24)	(5)	1,009	1,127	1,261
1,794	(236)	144	4	(129)	(15)	1,562	597	633
1,233	(105)	107	0	(93)	(11)	1,131	297	315
0	0	0	0	0	0	0	31	87
4,165	**(501)**	**315**	**0**	**(246)**	**(31)**	**3,702**	**2,052**	**2,296**
315	**0**	**152**	**0**	**(119)**	**(8)**	**340**	**722**	**788**
53	(21)	5	(3)	0	0	34	64	76
0	0	0	0	0	0	0	5	4
20	(3)	0	3	(3)	0	17	17	27
12	0	0	0	0	(1)	11	20	27
7	(1)	0	0	0	0	6	19	24
92	**(25)**	**5**	**0**	**(3)**	**(1)**	**68**	**125**	**158**
4,879	**(621)**	**568**	**0**	**(380)**	**(42)**	**4,404**	**3,300**	**3,762**

Future rents from noncancelable operating leases
€ million

	2003	2002
due within 1 year	254	260
due >1 to 5 years	329	369
due after 5 years	7	19
	590	**648**

Write-down in fiscal year € million	2003	2002
Tangible assets	4	17
Financial assets	5	21
	9	**38**

(10) Inventories

€ million	12/31/2003	12/31/2002
Raw materials and supplies	513	594
Work in process and finished products	2,049	2,490
Merchandise	405	423
Prepayments made	140	266
Inventories	**3,107**	**3,773**
Prepayments received	(1,200)	(1,679)
Inventories, net	**1,907**	**2,094**

(11) Trade receivables

€ million	12/31/2003	12/31/2002
Future receivables under long-term construction contracts	161	140
Receivables due from customers	2,645	3,071
Due from nonconsolidated Group companies	40	67
Due from investees	5	15
	2,851	**3,293**

The future receivables under long-term manufacturing and construction contracts and recognized according to the PoC method have been determined as follows:

€ million	12/31/2003	12/31/2002
Production cost incl. P/L from long-term contracts	1,551	2,626
less milestones capitalized as WIP	(20)	(158)
thereof billed to customers	(286)	(298)
Future receivables under long-term contracts, gross	**1,245**	**2,170**
less prepayments received	(1,084)	(2,030)
	161	**140**

Sales from long-term manufacturing and construction contracts totaled €1,386 million (down from €1,566 million). Orders and parts thereof billed to customers are shown as other receivables due from customers.

€599 million (up from €495 million) of trade receivables falls due after one year.

(12) Other receivables and current assets

€ million	12/31/2003	12/31/2002
Financial derivatives	234	139
Due from nonconsolidated Group companies from intragroup finance	38	75
All other financial receivables	84	61
Tax reclaims	118	141
Equity interests	108	35
Reserve from employer's pension liability insurance	55	58
Sundry current assets	275	270
	912	**779**

Pursuant to IAS 39, financial derivatives are fair-valued. Since they mostly serve hedging purposes, their positive fair (market) values contrast with decreased values in the balance sheet lines of the underlying transactions.

€85 million (up from €45 million) of the other receivables has a remaining term above one year.

(13) Short-term securities, cash & cash equivalents

€ million	12/31/2003	12/31/2002
Short-term securities	168	668
Cash on hand and in bank	380	609
	548	**1,277**

The securities are held as liquid investments and have, according to IAS 39, been categorized as available for sale and hence fair-valued, at €168 million (down from €668 million). The gains and losses realized in the year under review from the sale of securities amount to €4 million and €2 million, respectively. Unrealized gains and losses (netted, after deferred taxes) added €5 million to equity while the year before, equity was thereby reduced by €39 million.

The €811 million decrease in short-term securities and cash & cash equivalents is attributable to the disposal of the SMS Group and breaks down into €487 million and €324 million, respectively.

(14) Equity

At January 1, 2003, MAN AG's capital stock amounted to €376,422,400, divided into 147,040,000 no-par shares which included 140,974,350 shares of common, and 6,065,650 shares of nonvoting preferred, stock.

Authorized capital has existed by dint of resolutions adopted by the annual stockholders' meeting and the special meeting of preferred stockholders, both of December 15, 2000, which may be used by the Executive Board, after first obtaining the Supervisory Board's approval, to increase the Company's capital stock on or before December 15, 2005, by an aggregate maximum of one-half of the capital stock through one or several issues of bearer shares of common and/or preferred stock against contributions in cash and/or in kind. The Executive Board is authorized, with the Supervisory Board's prior approval, to exclude the stockholders' subscription right with respect to contributions in kind and in cash for up to an aggregate 10 percent of the capital stock.

At their annual meeting on June 4, 2003, the stockholders further authorized the Executive Board, subject to the Supervisory Board's prior consent, on or before November 17, 2003, to repurchase once or several times MAN AG common and/or nonvoting preferred stock. The authority is capped to an aggregate 10 percent of the current capital stock, i.e., a maximum of 14,704,000 shares. Such treasury stock may also be repurchased by other Group companies and/or third parties for the account of MAN AG or other Group companies.

A unchanged stake in excess of 25 percent in MAN AG's voting stock is held by Regina-Verwaltungsgesellschaft mbH, Munich (jointly owned at 25 percent each by Allianz AG, Allianz Lebensversicherungs-AG, Commerzbank AG, and Münchener Rückversicherungs-Gesellschaft).

The additional paid-in capital solely comprises stock premiums paid in under MAN AG's capital increases and the conversion of preferred into common stock. The Group's reserves retained from earnings cover MAN AG's of €387 million (up from €317 million).

The Group's net earnings equal the total cash dividend of €110 million. It will be proposed to the annual stockholders' meeting to distribute a €0.15 higher dividend of €0.75 per share.

The other comprehensive income covers the Group's share in gains and losses not yet realized in the Group's earnings (net after allowing for deferred taxes) and originates primarily from the fair valuation of securities and financial derivatives.

The minority interests in the equity of consolidated subsidiaries refer chiefly to Schwäbische Hüttenwerke (at €31 million), RENK (€18 million), and S.E.M.T. Pielstick (€12 million).

(15) Pension accruals

The MAN Group's pension plans include mainly direct defined benefit obligations (DBO). As a rule, service periods with the Group, pensionable pay will define the amounts of future pensions. These pension plans are in Germany funded by pension accruals.

Pension accruals are measured on an actuarial basis according to the projected unit credit method with due regard to future trends.

At some non-German subsidiaries, pension plans are based on contributions to pension funds which invest their assets in securities. The plan assets are measured at fair value, duly accounting for the returns expected thereon.

For the German MAN companies, the following future pay and pension rises are assumed:

	12/31/2003	12/31/2002
Payroll rise	2.5%	3.0%
Pension rise	1.5%	1.5%
Discount rate	5.5%	6.0%

The Group's non-German subsidiaries modify these assumptions according to local circumstances.

Pension accruals developed in the period as follows:

€ million	2003	2002
Balance at Jan. 1	2,052	1,997
Current service cost	39	52
Interest cost	107	118
Pension payments	(93)	(109)
Expense/income from unrecognized actuarial gains and losses	–	1
Deconsolidation of SMS	(413)	–
Other effects of consolidation group, exchange rate and other changes	(11)	(7)
Balance at Dec. 31	**1,681**	**2,052**

No expense or income from updating actuarial assumptions accrued in the year under review.

The present value of pension entitlements shows the defined benefit obligation to employees at balance sheet date. In contrast, long-term actuarial assumptions underlie the accrual according to IAS 19 and hence do not account for any variations at balance sheet date if within the corridor specified in IAS 19 (±10% of the DBO's present value). This produced an actuarial loss of €91 million (up from €60 million) or 4.7 percent of total benefit obligations (up from 2.6), and this loss is essentially ascribable to the lower discount rate (down from 6 at December 31, 2002, to 5.5 percent as of December 31, 2003).

Pension accruals were determined as follows:

€ million	12/31/2003	12/31/2002
Present value of accrual-funded DBO	1,748	2,034
Present value of plan-funded DBO	177	278
Present value of total DBO	**1,925**	**2,312**
Plan assets at fair value	(159)	(200)
Net liability	**1,766**	**2,112**
Unrecognizable excess cover of plan assets	6	–
Adjustment due to actuarial gains/(losses)	(91)	(60)
Pension accrual at Dec. 31	**1,681**	**2,052**

(16) Other accruals

The other accruals slimmed down by €361 million, from €1,876 million to €1,515 million. The SMS Group's retirement slashed the total by €489 million, exchange rate effects by another €34 million. If adjusted for these two factors, the other accruals would have risen by €162 million.

€ million

	Dec. 31, 2002	Change in cons. group, currency transl.	Utilization	Provisions in 2003	Release	Dec. 31, 2003
Warranties	476	(82)	(130)	142	(30)	376
Unbilled costs from contracts invoiced	505	(287)	(130)	214	(51)	251
Other business obligations	360	(37)	(88)	197	(67)	365
Obligations to personnel	217	(46)	(57)	116	(10)	220
Remaining accruals	318	(53)	(117)	231	(76)	303
	1,876	**(505)**	**(522)**	**900**	**(234)**	**1,515**

The warranty accruals provide for implied and express warranties, as well as accommodation warranties extended to customers. The accruals for unbilled costs from contracts invoiced refer to products or services yet to be provided under contracts invoiced and to obligations under maintenance and service contracts.

The other business obligations provide, inter alia, for losses and buyback commitments.

The obligations to personnel exist for accrued employment anniversary allowances, termination benefits, exit plans to mitigate undue hardship (severance/redundancy packages), and preretirement part-time work. Some of these accruals include an interest portion and have been discounted at €10 million. The remaining accruals refer to a wide range of specific risks.

(17) Liabilities

€ million

	Remaining term			12/31/2003	12/31/2002
	up to 1 year	>1 to 5 years	>5 years		
Bonds	–	–	299	299	–
Due to banks	360	321	7	688	1,538
Financial liabilities	**360**	**321**	**306**	**987**	**1,538**
Trade payables	**1,723**	**29**	**–**	**1,752**	**1,846**
Liabilities to personnel	361	–	–	361	425
Liabilities for taxes	121	–	–	121	112
Due to nonconsolidated Group companies from intragroup finance	29	–	–	29	37
Remaining sundry liabilities	187	5	9	201	256
Sundry liabilities	**698**	**5**	**9**	**712**	**830**
	2,781	**355**	**315**	**3,451**	**4,214**

Since December 2000, MAN AG has had a syndicated credit facility of €1,500 million at its disposal whose remaining term expires in December 2005 and which has been granted by a syndicate of 18 German and foreign banks led by Commerzbank AG and Deutsche Bank AG. The facility may be utilized on a EURIBOR/LIBOR basis plus a margin of 22.5 basis points or more annually. At December 31, 2003, €300 million of this facility was utilized (down from €995 million) and shown under the liabilities with a remaining term above 1 up to 5 years.

In December 2003, MAN Financial Services plc, Swindon, UK, floated a €300 million 5.375-percent bond issue. As of December 31, 2003, the book and fair values amounted to €299 million and €301 million, respectively. The bond will mature on December 8, 2010. For this bond issue, MAN AG has issued an irrevocable guaranty for the payment obligations in accordance with the issuance terms.

The accounts due to banks include order- or contract-related refinancing, of which €24 million (down from €30 million) is secured through the assignment of receivables. €13 million of the liabilities due to banks (up from €12 million) and €6 million of the sundry liabilities (down from €7 million) have been collateralized by land charges and similar encumbrances.

Pursuant to IAS 39, trade payables include at €134 million the negative fair values of financial derivatives (up from €94 million). Since they mostly serve hedging purposes, their negative fair values contrast with increased values in the balance sheet lines of the underlying transactions.

The liabilities to personnel comprise wages, salaries and social security taxes not yet due at balance sheet date, as well as the prorated amounts of vacation pay, Christmas bonuses, and special year-end payments.

Trade payables include €22 million (down from €29 million) due to nonconsolidated Group companies.

Other information

(18) Contingent liabilities

€ million	12/31/2003	12/31/2002
Guaranties and suretyships	113	194
Shared liability for third-party debts	314	257
Notes endorsed and discounted	49	77
Warranty/indemnity obligations	1	5

A shared (secondary) liability on terms customary in the industry exists for debts of customers that finance MAN products through nongroup leasing firms or banks, i.e., printing machines at €177 million (down from €227 million) and commercial vehicles at €86 million (up from €19 million). Moreover, a shared liability has been incurred for third-party debts of €41 million against which pledged securities provide additional collateral.

(19) Other financial obligations

These exist under leases and are incurred not only for funding investment (capital expenditure) projects but also for refinancing manufacturer leasing business via nongroup financing companies.

Future lease payments within the minimum operating lease terms fall due as follows:

€ million	12/31/2003	12/31/2002
Investment leases		
Within one year	16	21
After one but within five years	51	50
After five years	76	81
	143	**152**
Manufacturer leases		
Within one year	118	121
After one but within five years	133	122
After five years	–	–
	251	**243**
Obligations under leases		
Within one year	86	95
After one but within five years	213	217
After five years	257	276
	556	**588**

Customary buyback obligations of a total volume of €1,235 million (up from €1,150 million) exist in connection with the sale of commercial vehicles to customers and non-group financing companies. Accruals of €150 million (down from €170 million) provide for the ensuing market risks. The accruals sank since the difference between the buyback prices agreed on average and the dealer purchase prices of the used vehicles was successfully narrowed.

Further financial obligations to third parties exist under pending capital expenditure projects and sourcing contracts but are within the scope of ordinary day-to-day business and hence of no relevance to the financial position.

(20) Derivative financial instruments

The MAN Group offers its customers worldwide products, services and finance, and is thus exposed to not insignificant an extent to currency and interest rate risks for whose identification, measurement and containment a groupwide risk management system has been implemented.

– Risk management

MAN Group companies principally hedge their transactions against currency and interest rate risks through MAN AG's Group Treasury, on terms as if at arm's length and using original and derivative financial instruments.

Group Treasury's risk positions are hedged externally with banks within predetermined risk limits. Hedges are contracted according to groupwide uniform directives in compliance with the German Act on Corporate Control & Transparency ("KonTraG"), as well as with the German Minimum Requirements for Bank Trading Business ("MaH"). Moreover, such contracting is subject to stringent monitoring, which is particularly ensured through the strict segregation of contracting, settlement and controlling duties.

The Group's currency and interest rate risk positions are regularly reported to the Executive and Supervisory Boards. Compliance with guidelines and directives is checked by Internal Auditing.

– Currency risks

Any future cash flows not transacted in the reporting (functional) currency of a Group company are exposed to currency risks.

Within the MAN Group, principally all firm customer contracts and all of the Group's own purchase orders in foreign currency are hedged. Moreover, hedging transactions provide for planned foreign-currency revenues from bulk manufacturing business within defined limits and for customer projects whose materialization is highly probable.

Currencies presenting merely a minor exchange rate risk due to their close proximity to the euro rate are hedged in isolated cases only. Equity interests or equity-type loans in foreign currency are not subject to any hedging obligation.

External exchange rate hedges are contracted in the form of currency forwards or swaps (98 percent) and currency options (2 percent). Out of the total hedging volume as of December 31, 2003, the US dollar accounted for 56 percent, the pound sterling for 25, the South African rand for 6, and the Swiss franc for 6 percent.

€ million

			12/31/2003	12/31/2002
Notional volume	≤1 year	>1 year	total	total
currencies bought	1,483	273	1,756	1,098
currencies sold	2,666	465	3,131	2,213
currency options	115	0	115	173
Fair (market) values	positive	negative	total	total
currencies bought	10	(105)	(95)	(33)
currencies sold	215	(11)	204	108
currency options	5	0	5	2

– Interest rate risks

Customer finance transactions (particularly leases) are largely contracted at fixed interest rates while refinancing is usually based on variable rates. The interest rate risk is hedged against on a case-by-case basis; volume and terms are aligned with the pay-back or redemption structure of defined customer portfolios and are further subject to the level of collateral security.

As of balance sheet date, external interest rate swaps existed in €, US$, £ sterling, and Norwegian krone.

€ million

			12/31/2003	12/31/2002
Notional volume	≤1 year	>1 year	total	total
interest rate receiver swaps	20	300	320	39
interest rate payer swaps	427	772	1,199	1,189
Fair (market) values	positive	negative	total	total
interest rate receiver swaps	2	0	2	1
interest rate payer swaps	2	(18)	(16)	(32)

– Default risks

The maximum loss risk from financial derivatives corresponds to the aggregate total of their positive market values and thus to potential losses of assets that may be incurred if and when contractual obligations are not honored by specific trading counterparts. With a view to reducing this risk, financial derivatives are throughout contracted with banks of prime standing and within specified counterparty limits.

(21) MAN's SAR plan

Effective July 1, 2000, 2001 and 2003, the MAN Group implemented SAR plans. Members of the MAN companies' executive and management boards were granted stock appreciation rights (SARs) which, after a 2-year qualifying period within the succeeding five years, are exercisable and convertible into taxable income (phantom stock options), subject to the MAN common stock price trend in absolute and relative terms.

The base values of the 2000, 2001 and 2003 SAR plans are stock prices of €33.46, €25.60 and €14.55, respectively. If and when the MAN stock price rises 20 percent above the base value, plan participants receive cash of DM 4.00 or €2.045 for each SAR (both granted on a DM basis). For every further full percentage point above this 20-percent threshold, the cash payable increases by DM 0.15 or €0.0767, up to an aggregate maximum payment per SAR of DM 24.00 or €12.27. Under the 2003 SAR plan (€-based), participants will receive cash of €4 per SAR for an MAN stock price rise of 20 percent above the base value, and €0.15 for each additional full percentage point of increase, up to aggregate maximum of €24 per SAR.

The number of SARs developed as follows:

	SAR 2000	SAR 2001	SAR 2003
Total SARs at Jan. 1, 2003	732,165	762,665	–
granted in fiscal year	–	–	317,550
lapsed in fiscal year	(56,500)	(56,500)	–
Total SARs at Dec. 31, 2003	675,665	706,165	317,550

Thereof granted and issued to MAN AG Executive Board members:

	SAR 2000	SAR 2001	SAR 2003
SARs at Jan. 1, 2003	293,500	281,000	–
granted in fiscal year	–	–	154,397
SARs at Dec. 31, 2003	293,500	281,000	154,397

Valuation is based on the stock price of €24.05 as of the balance sheet date at the intrinsic value. Due to the stock price trend in fiscal 2003, expenses of €853,000 (rounded; up from €0) were incurred. In the year under review, no SARs were exercised, nor were any payments made.

RENK AG implemented SAR plans modeled on MAN AG's. Members of RENK AG's executive board were granted each on July 1, 2000 and 2001, a total 13,000 SARs and, as of July 1, 2003, a total 7,200 SARs; 12,750 SARs were exercised under the 2000 plan in fiscal 2003, entailing a payment of €73,000 (rounded). An expense (rounded) of €29,000 (up from €18,000) was incurred for the RENK SAR plans.

(22) Corporate governance code

In December 2003, MAN AG's Executive and Supervisory Boards issued, and disclosed to the stockholders on the Internet, their annual statement on the recommendations of the German Corporate Governance Code Government Commission. In its declaration of conformity pursuant to Art. 161 AktG, MAN AG states to adopt the recommendations of the Code as amended up to May 21, 2003, with the exception that the remuneration of individual Executive Board members will be disclosed in the notes to the consolidated financial statements only to the extent that the average remuneration of all the Executive Board members is indicated.

Furthermore, the listed subsidiary (Augsburg-based RENK AG) issued, and disclosed to their stockholders on the Internet, the declaration of conformity under the terms of Art. 161 AktG.

(23) Supervisory and Executive Boards

If the cash dividend distribution is resolved by the annual stockholders' meeting as proposed, the members of the Supervisory Board will according to the bylaws receive for fiscal 2003 a total remuneration of €0.899 million (up from €0.630 million), including approx. €58,800 (up from €52,500) as fixed, and approx. €840,200 as dividend-related (up from €577,500), fee. No compensation was paid to Supervisory Board members for advisory or agency services.

The altogether eight (unchanged) members of the Executive Board received a total €5.293 million (up from €4.496 million), breaking down into €3.466 million (up from €3.171 million) of fixed, and €1.827 million (up from €1.325 million) of variable, corporate performance-related, income. Consequently, the annual salary (rounded) of an Executive Board member averaged €661,700 (up from €562,000), including €433,300 fixed (up from €396,400) and €228,400 variable (up from €165,600). The variable portion hinges on the scaling of the dividend and return on operating assets (ROA).

The compensation of former Executive Board members and their surviving dependants amounted to €3.722 million (up from €3.050 million), while for the accrued pension obligations to such former members and their surviving dependants, altogether €30.839 million (down from €31.009 million) has been provided.

One Supervisory Board member has been granted a housing loan carrying interest at the annual rate of 5.5 percent and maturing after an agreed term of 25 years. At December 31, 2003, the residual loan balance came to €0.033 million (down from €0.035 million).

The Supervisory and Executive Board members are listed on pages 8–12, their memberships in other statutory supervisory and comparable boards being disclosed on pages 140–142 of the annual report.

Munich, March 9, 2004

MAN AG
The Executive Board

Memberships in other statutory boards or equivalent – Executive Board

Dr.-Ing. E. h. Rudolf Rupprecht	a) SMS GmbH (chairm.) Buderus AG Salzgitter AG Walter Bau-AG b) MAN Nutzfahrzeuge AG (chairm.) MAN Roland Druckmaschinen AG (chairm.)	MAN B&W Diesel AG (chairm.) RENK Aktiengesellschaft (chairm.) MAN Technologie AG (chairm.) Ferrostaal AG (chairm.) d) MAN B&W Diesel A/S, Denmark
Dr. rer. pol. Ferdinand Graf von Ballestrem	a) Bayerische Versicherungsbank AG HVB Real Estate Holding AG b) Schwäbische Hüttenwerke GmbH (chairm.) RENK Aktiengesellschaft (vice-chairm..) MAN Technologie AG (vice-chairm.)	MAN Nutzfahrzeuge Vertrieb GmbH MAN Roland Druckmaschinen AG d) MAN Capital Corporation, USA (chairm.) MAN Financial Services plc., UK (chairm.)
Dr. rer. nat. Wolfgang Brunn	b) MAN Turbomaschinen AG (chairm.)	
Prof. Dipl.-Ing. (FH) Gerd Finkbeiner	b) MAN Nutzfahrzeuge AG RENK Aktiengesellschaft Drei Mohren AG d) MAN Roland CEE AG., Austria (chairm.) MAN Roland Inc., USA (chairm.)	MAN Roland (China) Ltd., Hong Kong (chairm.) MAN Roland Western Europe Group B. V., Netherlands (chairm.) Votra S. A., Switzerland (chairm.)
Dr. jur. Matthias Mitscherlich	a) SMS Demag AG b) MAN Turbomaschinen AG (vice-chairm.) MAN Roland Druckmaschinen AG	DSD Industrieanlagen GmbH DSD Stahlbau GmbH
Dipl.-Ing. Håkan Samuelsson	b) MAN Nutzfahrzeuge Vertrieb GmbH (chairm.) NEOMAN Bus GmbH (chairm.) NEOPLAN Bus GmbH (chairm.) MAN B&W Diesel AG d) MAN Türkiye A. S., Turkey (chairm.)	MAN Sonderfahrzeuge AG, Austria (chairm.) MAN Steyr AG, Austria (chairm.) MAN Automotive (South Africa) (Pty.) Ltd., South Africa MAN B&W Diesel A/S, Denmark
Dr. jur. Hans-Jürgen Schulte LL.M.	b) Drei Mohren AG (chairm.) MAN Nutzfahrzeuge AG RENK Aktiengesellschaft	d) S.E.M.T. Pielstick, France (chairm.) MAN B&W Diesel Ltd., UK (chairm.)
Dr. jur. Philipp J. Zahn	a) SMS Meer GmbH b) MAN Roland Druckmaschinen AG MAN B&W Diesel AG Ferrostaal AG	NEOMAN Bus GmbH NEOPLAN Bus GmbH d) MAN B&W Diesel A/S, Denmark

Memberships in other statutory boards or equivalent – Supervisory Board

Dr. Eng. h. c. Volker Jung	a) Direktanlagebank AG Messe München GmbH	Vattenfall Europe AG c) INTRACOM S. A., Greece
Dr. rer. pol. Gerlinde Strauss-Wieczorek	a) MAN Nutzfahrzeuge AG (vice-chairm.)	Grammer AG
Dr. oec. Paul Achleitner	a) Bayer AG RWE AG b) Allianz Immobilien GmbH (chairm.)	Allianz Dresdner Asset Management GmbH (ADAM) c) ÖIAG
Dr. jur. Hans-Jürgen Schinzler	a) ERGO Versicherungsgruppe AG (chairm.) Bayerische Hypo- und Vereinsbank AG Deutsche Telekom AG	METRO AG c) Aventis S. A.
Michael Behrendt	a) Barmenia Allgemeine Versicherungs-AG Esso Deutschland GmbH ExxonMobil Central Europe Holding GmbH Hamburgische Staatsoper GmbH	b) Hapag-Lloyd Container Linie GmbH (chairm.) Pracht Spedition + Logistik GmbH c) Algeco S. A. (vice-chairm.)
Jürgen Dorn	a) MAN Nutzfahrzeuge AG	
Dr. rer. nat. Hubertus von Grünberg	a) Continental AG (chairm.) Allianz Versicherungs-AG Deutsche Telekom AG	SAI Automotive AG c) Schindler Holding AG
Jürgen Hahn	a) Ferrostaal AG	
Dr. jur. Heiner Hasford	a) Europäische Reiseversicherung AG (chairm.) Commerzbank AG D.A.S. Deutscher Automobil Schutz – Allgemeine Rechtsschutz-Versicherungs-AG ERGO Versicherungsgruppe AG	Nürnberger Beteiligungs-AG Victoria Lebensversicherung AG Victoria Versicherung AG WMF Württembergische Metallwarenfabrik AG d) American Re Corporation
Dr. phil. Klaus Heimann	a) Krones AG	

as of March 1, 2004, or resignation date, respectively

a) member of a German company's supervisory board
b) member of a group company's board
c) member of a comparable non-German board
d) member of a non-German group company's comparable board

Prof. Dr. rer. pol. Renate Köcher	[a] Allianz AG	BASF AG
Andreas de Maizière	[a] Rheinische Bodenverwaltung AG (chairm.) ABB AG Borgers AG efiport (Educational Financial Portal) AG RAG Saarberg AG RWE Power AG ThyssenKrupp Stahl AG	[b] Hypothekenbank in Essen AG [c] Arenberg-Schleiden GmbH (chairm.) BVV Versicherungsverein des Bankgewerbes a. G. [d] BRE Bank S. A. (vice-chairm.) Commerzbank (Eurasija) SAO
Prof. Dr.-Ing. Dr. h. c. mult. Joachim Milberg	[a] Allianz Versicherungs-AG BMW AG FESTO AG	Leipziger Messe GmbH TÜV Süddeutschland Holding AG [c] John Deere & Company
Karl-Heinz Schneider	[a] MAN Roland Druckmaschinen AG Eurocopter Deutschland GmbH Augsburger Flughafen GmbH	Stadtwerke Augsburg Verkehrsbetriebe GmbH Stadtwerke Augsburg Holding GmbH
Prof. Dr.-Ing. Ekkehard D. Schulz	[a] RAG AG (addit. vice-chairm.) Axa Konzern AG Commerzbank AG Deutsche Bahn AG TUI AG	[b] ThyssenKrupp Automotive AG (chairm.) ThyssenKrupp Services AG (chairm.) ThyssenKrupp Steel AG (chairm.) [d] ThyssenKrupp Budd Company
Ralf Simon	[a] Gesellschaft zur Altlastensanierung in Bayern mbH	

Supervisory Board committees

Standing Committee	Dr. Eng. h. c. Volker Jung (chairm.) Dr. oec. Paul Achleitner Dr. jur. Heiner Hasford	Lothar Pohlmann Dr. rer. pol. Gerlinde Strauss-Wieczorek
Committee for Executive Board Membership	Dr. Eng. h. c. Volker Jung (chairm.) Dr. oec. Paul Achleitner	Dr. rer. pol. Gerlinde Strauss-Wieczorek
Audit Committee	Dr. oec. Paul Achleitner (chairm.) Dr. jur. Heiner Hasford Dr. Eng. h. c. Volker Jung	Lothar Pohlmann Dr. rer. pol. Gerlinde Strauss-Wieczorek

Auditor's report & opinion

We have audited the consolidated financial statements (consisting of income statement, balance sheet, cash flow statement, statement of changes in equity, and notes) as prepared by MAN AG for the fiscal year ended December 31, 2003. The prepara-tion and contents of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) are the responsibility and assertions of the Company's Executive Board. Our responsibility is, based on our audit, to express an opinion on whether the consolidated financial statements conform with the IFRS.

We have conducted our annual group audit in accordance with German auditing regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Accountants & Auditors in Germany. Said standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of any material misstatements. When planning the audit procedures, knowledge and understanding of the group's business, its economic and legal environment as well as sources of potential errors are given due consideration. An audit includes examining on a test basis the evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used, and significant estimates made, by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

It is our opinion that the consolidated financial statements, which are in conformity with IFRS, present a true and fair view of the group's net assets, financial position, the results of its operations and its cash flows in the fiscal year.

Our audit, which also encompassed the group management report prepared by the Executive Board for the fiscal year ended December 31, 2003, has not resulted in any objections or exceptions. It is our opinion that the group management report presents fairly, in all material respects, both the group's position and the risks inherent in its future development. In addition, we confirm that the consolidated financial statements and group management report for the fiscal year then ended satisfy the requirements for exempting the company from preparing consolidated group accounts and a group management report in accordance with German law. The consistency with the 4th and 7th EC Directives, which is a prerequisite to the exemption from group accounts according to German Commercial Code regulations, has been audited by us on the basis of the interpretation of the Contact Committee for Accounting Directives of the European Commission.

Munich, March 15, 2004

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harnacke	Prof. Dr. Bolin
Wirtschaftsprüfer	Wirtschaftsprüfer

MAN Group: Seven-year financial summary

€ million	97/98	98/99	99/00	SFY 2000 [2]	2001	2002	2003
Order intake	**12,839**	**12,489**	**15,640**	**7,773**	**15,678**	**15,720**	**14,896**
from Germany	4,320	4,239	4,623	2,195	4,026	3,862	4,116
from abroad	8,519	8,250	11,017	5,578	11,652	11,858	10,780
Order intake by division							
Commercial Vehicles	4,858	4,950	6,274	3,114	6,272	6,525	6,772
Printing Machines	1,565	1,792	2,095	1,126	1,993	1,542	1,575
Diesel Engines	921	969	1,192	861	1,489	1,363	1,460
Turbomachines	411	483	360	161	556	539	658
Further Industrial Holdings	797	841	840	355	763	818	894
Industrial Services	2,866	2,228	2,927	1,359	2,737	3,178	2,738
Financial Services	–	224	267	183	635	602	607
SMS Group (retired as of 9/30/2003)	1,554	1,323	2,068	907	2,117	2,001	1,152
Sales	**12,634**	**13,256**	**14,581**	**7,524**	**16,300**	**16,040**	**15,021**
from Germany	4,068	4,327	4,418	2,231	4,457	4,212	4,045
from abroad	8,566	8,929	10,163	5,293	11,843	11,828	10,976
Sales by division							
Commercial Vehicles	4,516	4,931	5,755	3,048	6,741	6,564	6,707
Printing Machines	1,359	1,680	1,848	946	2,081	1,808	1,516
Diesel Engines	984	1,026	1,106	665	1,415	1,408	1,312
Turbomachines	322	576	360	161	555	530	567
Further Industrial Holdings	756	884	733	369	778	843	837
Industrial Services	3,228	2,668	2,541	1,410	2,855	2,916	2,880
Financial Services	–	224	267	183	513	628	627
SMS Group (retired as of 9/30/2003)	1,543	1,631	2,353	1,013	2,239	2,190	1,475
Order backlog at June 30/Dec. 31	**9,314**	**8,604**	**10,643**	**10,962**	**10,313**	**9,597**	**7,363**
Germany	2,778	2,723	2,895	2,976	2,537	2,035	1,891
abroad	6,536	5,881	7,748	7,986	7,776	7,562	5,472
Employees at June 30/Dec. 31	**63,887**	**66,838**	**74,324**	**76,604**	**77,606**	**75,054**	**64,158**
in Germany	47,347	47,520	49,487	50,611	51,240	48,863	41,497
abroad	16,540	19,318	24,837	25,993	26,366	26,191	22,661
Annual average headcount	63,006	67,157	71,239	76,049	78,608	76,346	72,455
Personnel expenses	3,067	3,345	3,606	1,935	4,017	3,928	3,808
Personnel expenses per capita (€)	48,673	49,814	50,618	25,440	51,107	51,448	52,557
Capital expenditures and funding							
Tangible and intangible assets	405	486	537	294	554	463	424
Assets leased out	254	292	397	297	501	472	245
Financial assets and acquisitions	91	103	283	24	223	62	21
Research and development	393	422	527	284	620	580	549
Amortization/depreciation	482	466	525	292	650	660	568
Cash earnings	875	981	1117	552	822	885	857
Key ratios (%)							
Equity ratio	27.8	27.8	26.4	25.2	23.7	24.7	28.0
Equity-to-fixed assets ratio [1]	116.0	118.1	108.4	104.8	92.7	97.2	108.0
EBIT margin	3.9	4.8	5.4	4.5	2.5	2.4	3.2
Pretax return on sales	3.3	4.2	4.6	3.5	1.3	1.4	2.0
Return on capital employed	13.7	15.4	15.9	12.4	7.5	6.9	8.7
Aftertax return on equity	14.4	14.9	15.2	12.0	5.2	5.1	8.3

€ million

	97/98	98/99	99/00	SFY 2000 [2]	2001	2002	2003
Fixed assets	**2,427**	**2,735**	**3,414**	**3,706**	**3,847**	**3,762**	**3,300**
Inventories	3,068	3,531	4,353	4,531	4,618	3,773	3,107
Prepayments received	(1,804)	(1,852)	(2,536)	(2,560)	(2,582)	(1,679)	(1,200)
Receivables and other current assets [3]	3,427	3,672	4,511	4,481	4,648	4,559	4,200
Securities, cash & cash equivalents	1,306	1,343	1,451	1,610	1,559	1,277	548
Current assets [3]	**5,997**	**6,694**	**7,779**	**8,062**	**8,243**	**7,930**	**6,655**
Total assets	**8,424**	**9,429**	**11,193**	**11,768**	**12,090**	**11,692**	**9,955**
Equity	**2,345**	**2,623**	**2,953**	**2,963**	**2,862**	**2,891**	**2,784**
Pension accruals	1,586	1,648	1,884	1,925	1,997	2,052	1,681
Other accruals	1,679	1,762	2,134	2,062	2,180	1,994	1,596
Financial liabilities	421	603	967	1,775	1,906	1,538	987
Other liabilities, deferred income [3]	2,393	2,793	3,255	3,043	3,145	3,217	2,907
Total liabilities	**6,079**	**6,806**	**8,240**	**8,805**	**9,228**	**8,801**	**7,171**
Total equity and liabilities	**8,424**	**9,429**	**11,193**	**11,768**	**12,090**	**11,692**	**9,955**
Capital employed at June 30/Dec. 31	**4,409**	**4,930**	**5,855**	**6,733**	**6,839**	**6,546**	**5,505**
Net sales	**12,634**	**13,256**	**14,581**	**7,524**	**16,300**	**16,040**	**15,021**
Cost of sales	(10,298)	(10,710)	(11,915)	(6,135)	(13,625)	(13,365)	(12,313)
Gross margin	**2,336**	**2,546**	**2,666**	**1,389**	**2,675**	**2,675**	**2,708**
All other income/expenses, net	(1,847)	(1,908)	(1,882)	(1,051)	(2,259)	(2,284)	(2,231)
Earnings before interest and taxes (EBIT)	**489**	**638**	**784**	**338**	**416**	**391**	**477**
Net interest expense	(71)	(81)	(116)	(74)	(203)	(172)	(174)
Result from ordinary operations (EBT)	**418**	**557**	**668**	**264**	**213**	**219**	**303**
Income taxes	(94)	(186)	(244)	(87)	(62)	(72)	(68)
Net income	**324**	**371**	**424**	**177**	**151**	**147**	**235**
Minority interests	(17)	(27)	(35)	(17)	0	(12)	(8)
Transferred to reserves	(181)	(202)	(235)	(83)	(63)	(47)	(117)
Total dividend MAN AG	**126**	**142**	**154**	**77**	**88**	**88**	**110**
MAN stock (figures per share)							
Common stock, price at June 30/Dec. 31 (€)	36.12	33.30	31.66	27.10	23.75	13.15	24.05
Common stock, annual high (€)	37.71	39.63	40.01	34.41	34.20	30.25	24.15
Common stock, annual low (€)	24.34	21.20	28.20	26.52	16.96	10.65	12.09
Common stock, PER at June 30/Dec. 31	18.1	14.9	12.6	–	23.5	14.3	15.6
Preferred stock, price at June 30/Dec. 31 (€)	25.26	22.12	21.45	21.00	18.00	9.90	19.80
Preferred stock, annual high (€)	27.61	27.87	25.01	24.68	26.10	26.10	20.49
Preferred stock, annual low (€)	19.17	14.90	17.90	20.50	12.95	8.20	10.30
Preferred stock, PER at June 30/Dec. 31	12.7	9.9	8.5	–	17.8	10.8	12.9
Cash dividend (€)	0.82	0.92	1.00	0.50	0.60	0.60	0.75
Earnings per share (EpS) acc. to IAS 33 (€)	1.99	2.23	2.52	1.04	1.01	0.92	1.54
Annual cash flow per share (CFpS) acc. to DVFA/SG (€)	5.40	6.00	6.70	3.30	5.30	5.50	5.50
Equity per share (€)	**14.00**	**15.40**	**17.20**	**17.30**	**17.30**	**17.90**	**18.50**

[1] Fixed assets excluding assets leased out
[2] Short fiscal year (July 1 to Dec. 31, 2000); return ratios annualized
[3] Including deferred tax assets, prepaid expenses and deferred charges

Glossary

Capital employed
Sum total of a company's equity and interest-bearing liabilities, i.e. financial liabilities on which interest is payable, pension accruals and deferred income.

Currency option
The buyer of a currency option is entitled but not obligated to buy (calls) from, or sell (puts) to, the option writer a defined currency amount at a pre-fixed rate and predetermined date (or period).

Currency forward
Contract to buy or sell a currency amount at a fixed rate at a future (forward) date.

Corporate governance
The legal and constructive framework for corporate management and control with a long-term addition of value in mind.

Deferred taxation
In accordance with IAS 12, deferred taxation is shown for temporary differences between the values of assets and liabilities stated in IFRS-based financial accounts and those in the local tax accounts. If assets are stated at a lower, or liabilities at a higher, value in the IFRS accounts than in the tax balance sheet, the future tax relief accruing must be capitalized as a deferred tax asset. In the opposite case, a deferred tax liability is recognized for the future tax burden.

Economic value added (EVA)
Financial and management tool for assessing the performance of divisions and business units operating within a group. It is designed to measure their present, and evaluate their future, contributions to the group's profitability, as well as develop the potential to increase shareholder value.

Financial derivatives
Financial contracts deriving their value from changes in other financial parameters, such as security prices, interest or exchange rates, or market indexes.

Goodwill
Amount by which the purchase price of a consolidated subsidiary exceeds its prorated equity at acquisition date after disclosing any hidden reserves and charges.

Hedging
Hedge of an asset or liability (the underlying) against interest rate, currency and exchange risks by contracting a financial derivative (the hedge) which (substantially) offsets any changes in the value of the underlying.

Interest rate swap
Contract between two parties to swap cash flows from interest payments, as a rule by exchanging a fixed for a variable rate related to a defined amount of principal. From the MAN Group's vantage point, MAN would pay fixed interest to a counterparty (payer swap) and receive variable interest in return. The opposite is a receiver swap.

International Financial Reporting Standards (IFRS)
Accounting principles as harmonized and applied on an international scale by the International Accounting Standards Board (IASB). The IASB is a civil-law organization comprising auditors and other accounting experts from over 100 countries.

Other comprehensive income (OCI)
Other comprehensive income is a component of equity that includes gains and losses which are recognized in the balance sheet but yet unrealized in the income statement, mainly from the fair valuation of securities and hedges.

Percentage-of-completion method (PoC)
Accounting method based on IAS 11, requiring sales revenues, contract costs and the profit or loss from long-term contracts for customized manufacture or comparable services to be recognized in the financial statements to the percentage of completion, although the contract has not yet been fully completed and invoiced to the customer.

Projected unit credit method (PUC)
Method for measuring pension obligations under IAS 19, according to which anticipated future pay and pension trends are accounted for in addition to the vested pension rights and entitlements existing at balance sheet date.

R&D ratio
Indicator obtained as the ratio of research and development costs, including capitalized development costs, to the sales generated by manufacturing divisions.

Return on capital employed (ROCE)
Ratio of earnings before income taxes and interest expense to annual average capital employed.

Products and Services

As the MAN Group manufactures only non-consumer goods, most people have no direct contact with its products and services. Yet the MAN brand is a recurring feature of everyday life. Many things rely on the input or products provided by our companies, especially in the fields of mobility and transport, print media and communication or power and heating. The full range of products and services offered by the MAN Group is listed in this final section.

Commercial Vehicles

Trucks with permissible gross weights of 7.5 to 50 t and engines rated at 83 to 485 kW (113 to 660 hp), as well as special-purpose vehicles up to 250 t gross train weight: forward-control platform trucks, tippers, semitrailer tractors, chassis for the most varied applications, optionally with all-wheel drive. High-mobility off-road chassis with low-torsion box-section frames, coil springs, all-wheel drive and single tyres.

Buses and coaches: Touring coaches, intercity buses, standard and articulated city buses driven by diesel, gas, hydrogen or electric systems, bus chassis.

Engines: Gas and diesel engines for vehicles and industrial applications from 83 to 1,103 kW (113 to 1,500 hp).

Components: Axles, transfer cases, frame and bodywork pressings for commercial vehicles and cars, tools, castings.

Services: 24-hour service, spare-parts service, maintenance and repair contracts, fleet management, telematics for fleet management, training drivers in safety and economy.

Printing Machines

Complete systems, trade and services: International market leader in the design, planning, project management, construction and commissioning of turnkey printing works in both the sheet-fed-offset and web-offset printing sectors. Provider of integrated services and software products for all printing-industry needs. printnet workflow management system. Worldwide sales and service network marketing MAN Roland products as well as a comprehensive range of equipment and consumables to accompany the printing process. Process optimisation. Life-cycle management. 24-hour service facility.

Digital printing systems for short multicoloured production runs. Digital in-press imaging, de-imaging and re-imaging with the DICOweb press (digital changeover). Digital-printing solutions for various market segments and varying lengths of production runs, including integrated prepress and finishing work.

Sheet-fed offset systems for small, medium and large-format commercial printing in the fields of advertising, publishing and packaging, suitable for illustrated books and small posters, as well as for long runs of brochures, large posters, books and packaging. Presses for flexible modular in-series configuration with sheet-turning devices for face printing, as well as printing and perfecting. Optional features, such as in-line coating systems for high-quality finishing.

Web offset systems: Highly-flexible, customised web-fed offset presses for newspaper and commercial printing to satisfy all colour and page-volume requirements. A range of system models for all types of production runs, offering a wide range of formats and output volumes for newspaper offset printing and selected commercials. A complete range of commercial web-fed offset presses covering all sizes and output volumes, with multiple folding facilities for the production of high-quality brochures, loose inserts, catalogues and magazines in print runs of varying lengths. Special folding equipment and dedicated models for book production.

Diesel Engines

Two-stroke MC diesel engines for marine propulsion systems and power stations (1,100 to 97,000 kW).
Medium-speed, four-stroke diesel engines for marine propulsion systems, marine auxiliary units and stationary power stations (450 to 23,850 kW).
High-speed diesel engines for marine propulsion systems, marine auxiliary units, stationary power stations and locomotives (780 to 9,000 kW).
Four stroke dual-fuel and spark-ignition engines for power stations (710 to 7,200 kW).
Turbochargers, power turbines.
Propulsion systems equipped with diesel engines, step-down gears, clutches, adjustable propellers and remote control.
Land-based and floating **power stations,** powered by diesel or dual-fuel engines.
Services: Worldwide spare-parts supply and maintenance services for diesel engines and turbochargers. Parts reconditioning and replacement services. Modernising of engine facilities. Maintenance of industrial facilities. Troubleshooter services. Materials testing.
Repair of marine propulsion systems and shipbuilding work as general contractors with own wharves in Hamburg and Frederikshavn.
Heating technology: Oil and gas-fuelled burners. Oil and gas boilers, devices for measuring the output of gas burners.

Turbomachines

Manufacture, testing, assembly and commissioning of stand-alone equipment and entire machine trains.

Compressors
Axial compressors with suction flow rates up to 1.25 million m^3/h, max. discharge pressure 20 bar (ARZ up to 20 bar).
Centrifugal compressors with suction flow rates up to 325,000 m^3/h, max. discharge pressure 850 bar
Isotherm compressors with flow rates up to 600,000 m^3/h.
Gear-type compressors with suction flow rates up to 300,000 m^3/h, max. discharge pressure 220 bar.
Process-gas screw compressors with suction flow rates up to 100,000 m^3/h, max. discharge pressure 50 bar.
Turbair® vacuum blower with suction flow rates up to 200,000 m^3/h, vacuum level up to 0.2 bar.

Turbines and expanders
Industrial gas turbines for mechanical and generator drive applications with outputs of up to 12 MW (THM), 26 MW (FT8) or 52 MW (TwinPac).
Industrial steam turbines for mechanical and generator drive applications with live steam up to 130 bar and 570°C, and outputs of up to 120 MW.
Expanders with outputs of up to 30 MW, inlet temperatures of up to 760°C and inlet pressure of up to 20 bar.

turbolog®: Control, protection and monitoring systems for entire machine trains.

After-sales service for compressors and turbines.

Further Industrial Holdings

RENK
Fully-automatic transmissions for medium and heavy-weight tracked vehicles.
Industrial gear units for cement plants and for petrochemical facilities, for the plastics-processing and steel industries and for wind-powered facilities. Cylindrical and planetary gear drives for turbomachines.
Marine gear units for merchant and naval ships powered by diesel engines and/or turbines, gear units for electric motors, main propulsion and auxiliary drive systems.
Horizontally and vertically-positioned plain bearings for electrical machines, fans, compressors, pumps and marine applications.
Couplings, especially curved-tooth couplings for all kinds of industrial applications, for ships and rail vehicles. Steel disc, diaphragm and flexible clutches.
Test systems used in product development, production and quality-assurance operations in the automotive, aviation and railway industries.

MAN Technologie
Space systems: development and production of lightweight structures, tanks and propulsion components for launchers and orbital systems, chiefly for Europe's ARIANE project; high-temperature-resistant CMC-based structural components and heat-shield systems for reusable space-transport equipment; tank systems and structures for satellites; planning, construction, maintenance and operation of assembly, preparation and testing locations, mobile installations and starting facilities for launchers.
Lightweight components for industrial applications.

MAN DWE
Reactors for catalytic gas-phase processes, hydrotreaters, physical process systems. Plants and components for the chemical and refinery sectors, as well as for special research facilities.

Schwäbische Hüttenwerke
Pumps for automotive and other industrial applications.
Internally-ventilated brake discs, Luperlit® metal material.
Highly-durable sintered structural parts with highly-complex geometrical features.
Complex cast parts weighing up to 85 t.
"Königsbronn" chilled cast-iron rolls, Äquitherm® heated cylinder rolls, coated rolls. Wear-resistant casts, grinding bodies of up to 140 t.
Material-processing systems for slow-flowing bulk materials, sludge and similar materials.

MAN Logistics: Material-flow and warehousing systems.

MAN WOLFFKRAN: "WOLFF" tower cranes.

GHH Bau: Building construction and civil engineering, construction of industrial and other facilities, turnkey construction.

Industrial Services

Facility construction and contracting: Worldwide planning, supply, assembly and commissioning of all types of industrial facilities. Erection of plants as general contractor or member of a consortium, mainly for the manufacture of steel and aluminium, as well as for the petrochemical industry. Project management, including the provision of financing concepts. Components supplies for the chemical, natural gas and petroleum industries, as well as for utilities and the manufacturing industries. BOP (balance of plant) for power stations. Strip mining and conveyor systems.

DSD Stahlbau: Structural steel engineering, bridge construction, hydraulic steelwork.

Industrial equipment and systems: Global supply and maintenance of plants for the food-processing industry and for the production of mechanical components, as well as machines for the graphic industry and stand-alone equipment, including machinery for the production of plastics, textiles and packaging, compressors, and diesel engines. Planning and realisation of infrastructure projects of all kinds, road and rail traffic and transport equipment, as well as communication systems. Supply and construction of naval and merchant vessels including marine-equipment packages, as well as equipment for ports and shipyards. Sale of naval vessels, most notably as a member of the German Naval Group.

Steel trading and logistics: Procurement and sale of steel products and non-ferrous metals, as well as all related trading activities, such as financing and transport services. Supplying the automobile and other industries with steel, components and pre-assembled systems on a just-in-time and supply in-line sequence basis. Supplying piping accessories and components for the construction of industrial facilities.

Financial Services

Leasing, sales and capital investment financing, insurance brokerage and other financial services.

MAN Group: Abridged List of Companies Consolidated

At 31 December 2003	Shareholding %	Total Assets € million	Sales € million	Employees at 31 Dec. 2003
MAN Nutzfahrzeuge Aktiengesellschaft, Munich	**100**	**2,526**	**4,270**	**12,759**
MAN Steyr AG, Steyr/Austria	100	385	762	2,587
NEOMAN Bus GmbH, Salzgitter/Germany	100	374	887	1,877
NEOPLAN Bus GmbH, Stuttgart/Germany	100	165	323	1,301
MAN Türkiye A.S., Akyurt (Ankara)/Turkey	100	158	310	2,498
MAN STAR Trucks & Busses Sp. z o.o., Tarnowo Podgórne/Poland	100	97	128	2,088
MAN Automotive (South Africa) (Pty.) Ltd., Johannesburg/South Africa [1]	100	103	204	586
MAN Sonderfahrzeuge AG, Vienna/Austria	100	142	333	851
MAN Nutzfahrzeuge Vertrieb GmbH, Munich/Germany	100	590	1,918	4,911
MAN ERF UK Ltd., Swindon/United Kingdom	100	302	617	1,077
MAN Nutzfahrzeuge Vertrieb OHG, Vienna/Austria	100	195	488	899
MAN Vehículos Industriales (España) S.A., Coslada (Madrid)/Spain	100	114	425	489
MAN Camions et Bus S.A., Evry/France	100	122	273	495
MAN Veicoli Industriali S.p.A., Dossobuono di Villafranca/Italy	100	82	209	114
MAN Truck & Bus S.A., Kobbegem (Brussels)/Belgium [1]	100	45	107	128
MAN Last og Bus A/S, Glostrup/Denmark	100	51	115	195
MAN Nutzfahrzeuge (Schweiz) AG, Otelfingen/Switzerland	100	30	62	103
MAN Last og Buss A/S, Lorenskog/Norway	100	41	84	210
MAN Veiculos Industriais (Portugal) S.U. Lda., Avintes/Portugal	100	33	36	86
MAN Engines & Components Inc., Pompano Beach/USA	100 [2]	16	29	33
MAN uzitková vozidla Česká republika spol.s.r.o., Cestlice/Czech Republic	100	17	58	67
MAN Kamion és Busz Kereskedelmi Kft., Dunaharaszti/Hungary	100	23	47	118
MAN Gospodarska vozila Slovenija d.o.o., Ljubljana/Slovenia	100	11	36	31
MAN STAR Trucks Sp. z o.o., Nadarzyn/Poland	100	32	98	145
MAN Úzitkové Vozidlá Slovakia s.r.o., Bratislava/Slovakia	100	11	18	48
MAN Roland Druckmaschinen Aktiengesellschaft, Offenbach	**100**	**883**	**1,079**	**7,367**
ppi Media GmbH, Hamburg/Germany	75	15	12	130
grapho-metronic Meß- und Regeltechnik GmbH, Munich/Germany	100	4	7	25
MAN Roland Vertrieb und Service GmbH, Mühlheim on Main/Germany	100	18	46	128
MAN Roland Vertriebsgesellschaft Bayern mbH, Munich/Germany	100	30	41	61
MAN Roland Western Europe Group B.V., Amsterdam/Netherlands [1], incl.	100 [4]	188	336	790
MAN Roland Nederland B.V., Amsterdam/Netherlands	100	25	48	146
MAN Roland Belgium N.V., Wemmel/Belgium	100	27	47	135
MAN Roland Great Britain Limited, Mitcham/United Kingdom	100	20	54	132
MAN Roland France SA, Roissy Charles de Gaulle/France	100	28	40	98
MAN Roland Swiss AG, Kirchberg/Switzerland	100	12	36	77
MAN Roland Italia SpA, Segrate Milan/Italy	100	58	61	74
MAN Roland Sverige AB, Trollhättan/Sweden [1]	100	12	24	50
MAN Roland Finland Oy, Vantaa/Finland [1]	100	7	21	38
MAN Roland Danmark A/S, Vaerloese/Denmark	100	3	10	26
MAN Roland CEE AG, Vienna/Austria [1], incl.	100	52	77	194
MAN Roland Polska Sp. z o.o., Nadarzyn/Poland	100	8	15	40
MAN Roland Hrvatska d.o.o., Novaki-SV Nedjelja/Croatia	100	7	9	14
MAN Roland Inc., Westmont/USA [1]	100 [2]	41	140	277

At 31 December 2003	Shareholding %	Total Assets € million	Sales € million	Employees at 31 Dec. 2003
MAN Roland (China) Ltd., Hong Kong/China [1]	100	26	70	164
DIC*MANROLAND Co.Ltd., Tokyo/Japan	80	15	19	72
MAN B&W Diesel Aktiengesellschaft, Augsburg	**100**	**434**	**420**	**2,474**
MAN B&W Diesel A/S, Copenhagen/Denmark	100	301	478	2,173
S.E.M.T. Pielstick, Villepinte/France	66.6	108	221	709
MAN B&W Diesel Ltd., Stockport/United Kingdom	100	194	126	678
MAN B&W Diesel (Singapore) Pte. Ltd., Singapore	100	23	55	140
MAN Turbomaschinen Aktiengesellschaft, Oberhausen	**100**	**316**	**373**	**1,668**
MAN Turbomaschinen AG Schweiz, Zürich/Switzerland	100	107	180	561
MAN Turbomacchine S.r.l. De Pretto, Schio/Italy	100	51	27	194
RENK Aktiengesellschaft, Augsburg	**76**	**200**	**246**	**1,463**
MAN Technologie Aktiengesellschaft, Augsburg	**100**	**123**	**123**	**771**
MAN DWE GmbH, Deggendorf	**100**	**57**	**86**	**367**
Schwäbische Hüttenwerke GmbH, Aalen-Wasseralfingen	**50**	**133**	**209**	**965**
Ferrostaal Aktiengesellschaft, Essen	**100**	**1,364**	**1,468**	**666**
DSD Industrieanlagen GmbH, Essen/Germany	100	302	156	486
MAN Ferrostaal Industrieanlagen GmbH, Geisenheim/Germany	100	357	383	276
DSD Stahlbau GmbH, Saarlouis/Germany	100	79	126	470
FERROMETALCO The Egyptian-German Company for Metallic Construction S.A.E., Cairo-Heliopolis/Egypt	100	19	40	559
MAN TAKRAF Fördertechnik GmbH, Leipzig/Germany	100 [3]	78	64	370
DSD-CGI Compañía General de Industrias C.A., Caracas/Venezuela	100	10	6	98
DSD Construcciones y Montajes S.A., Santiago/Chile	100	18	16	88
Intergrafica Print & Pack Pty. Ltd., Alexandria/Australia	100	26	20	57
Graphic Systems Australasia Pty. Ltd., Silverwater/Australia	100	13	9	37
Ferrostaal Incorporated, Houston/USA [1]	100 [2]	59	417	103
FIS Ferrostaal Industrie- und System-Logistik GmbH, Saarlouis/Germany [1]	100	85	109	1,235
Ferrostaal Piping Supply GmbH, Essen/Germany [1]	100	41	56	90
MAN Financial Services GmbH, Munich	**100**	**983**	**493**	**57**
MAN Financial Services plc, Swindon/United Kingdom	100	414	96	21

[1] Total assets, sales and employees include companies under operative management.

[2] Held by MAN Capital Corporation, New York.

[3] Held by MAN AG.

[4] 7% share held by Ferrostaal Piping Supply B.V., Hooge Zwaluwe, Netherlands.

Financial calendar

Annual press conference on 2003*	30 March 2004
Analysts' conference on 2003*	30 March 2004
Report on the first quarter of 2004	13 May 2004
Annual general meeting on financial year 2003	9 June 2004
Report on the first half of 2004	12 August 2004
Report on the third quarter of 2004	11 November 2004
Preliminary business volume & earnings figures for 2004	17 February 2005
Annual press conference on 2004*	23 March 2005
Analysts' conference on 2004*	23 March 2005
Report on the first quarter of 2005	10 May 2005
Annual general meeting on financial year 2004	3 June 2005
Report on the first half of 2005	11 August 2005
Report on the third quarter of 2005	10 November 2005

* Presentation of the Annual Report

Basic information

	shares		bond
	ordinary shares	preference shares	MAN Financial Services plc
ISIN	DE0005937007	DE0005937031	XSO181879650
WPK number	593700	593703	A0AART
VALOREN	340813	340814	–
Reuters abbreviation	MANG.F	$MANG^{P}_{R}.F$	0#DE018187965=
Bloomberg abbreviation	MAN GY	MAN3 GY	MANAG

The latest share prices can be found in the internet at www.man-group.com.

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