Letter to MAN's shareholders
March 6, 2002

MAN Group: 2001 financial year somewhat better than expected

Following strong growth in recent years, the MAN Group registered new orders of €15.7bn in 2001, maintaining the level of the last full financial year of 1999/2000 (closing date 30 June 2000) in spite of a considerably more difficult economic environment throughout the year. Boosted by high order levels at the beginning of the financial year, sales increased by 12% to €16.3bn. Earnings before interest and taxes (EBIT) of €416m and earnings before taxes (EBT) of €213m exceeded the figures of €400m and €200m forecast in November 2001. This downturn compared with 1999/2000 (EBIT €784m, EBT €668m) was attributable to special factors, as well as to a deterioration in operating results in the Commercial Vehicles Division and the SMS group. Other MAN Group activities, namely Industrial Services, Printing Systems, Diesel Engines and the major part of Industrial Equipment and Facilities, registered a continuing good to very good net earnings position during 2001. Consolidated net profit after tax amounted to €151m (€424m), and earnings per share to €1.01 (€2.52). The Executive Board will be proposing a dividend distribution of €0.60 per share (€1.00) for the year 2001.

If the economic recovery forecast for the USA during the first half of 2002 actually materialises and does spread to Europe during the second half of the year, the MAN Group will be able to improve its earnings in 2002 compared with 2001. The scale of this improvement will depend largely on economic developments, but also on the extent to which our assumptions relating to trends in margins and personnel costs can be realised.

Noticeable downswing in global economy

The global economy suffered a noticeable downswing in the year 2001. In the wake of the recession in the United States, the economic climate progressively worsened across the world. The prospects of a stabilising economic trend still harboured in the summer of 2001 were wiped out by the terrorist attacks of 11 September in the USA. Uncertainty on the part of investors and consumers worldwide contributed to a further deterioration in the economic situation. This global downswing also dominated the economy in Germany and the rest of Europe.

New orders match the level of the previous year

Reaching €15.7bn, new orders received by the MAN Group matched the level of the last full financial year of 1999/2000. Gains in the Diesel Engines (+25%) and Industrial Equipment and Facilities (+5%) Divisions were offset by lower incoming orders in the sectors of Industrial Services (-6%) and Printing Systems (-5%), whereas Commercial Vehicles were again able to reach the volume of the previous comparable financial year. Changes in the scope of consolidation following acquisition of the bus manufacturer NEOPLAN and of Sulzer´s turbomachine activities in 2001, as well as companies only included on a pro rata basis in 1999/2000, accounted for 5 percentage points of incoming orders.

Europe, including Germany with a share of 65% (69%), was once again the most important market for the MAN Group, despite the fact that new orders from this region dropped by 7% to €10.1bn. This was balanced by a high demand for both large-scale plant and equipment and diesel engines emerging in Asia, where incoming orders rose by 49% to €2.5bn. Contributing a 16% (11%) share of new orders, Asia has now overtaken the American markets with 14% (17%) as the strongest sales area outside Europe. In America, incoming orders amounted to €2.3bn, 13% less than 1999/2000.

Sales grow by 12%

MAN Group sales increased by 12% to €16.3bn. Boosted by high order levels at the beginning of the financial year, all divisions were able to show a strong increase in sales. Sales by newly-consolidated companies contributed a total of 6 percentage points to this rise. Double-digit growth figures were achieved by Commercial Vehicles (+17%), Industrial Services (+12%), Printing Systems (+13%) and Diesel Engines (+28%); Industrial Equipment and Facilities improved by 4%. MAN Financial Services recorded strong growth in the leasing sector.

Order levels decline slightly

Due to the fact that sales exceeded incoming orders, the level of orders on hand decreased during the course of the 2001 financial year. Standing at €10.3bn as of 31 December 2001, orders registered 6% less than the figure for 31 December 2000.

Fewer employees on a comparable basis

As of 31 December 2001, the MAN Group employed a staff of 77,606, 1.3% more than on 31 December 2000. This increase was entirely due to changes in the scope of consolidation amounting to 4.4 percentage points. On a comparable basis, and counting temporary staff not included in the number of employees, the number of cost-effective employees fell by 3,465 or 4.2%.

Cash flow, capital expenditure, research and development

The financial situation of the MAN Group showed a positive development in 2001. As a result of special efforts to reduce funds tied up in inventories, accounts receivable and equipment leased to customers, the cash flow of €697m (+74%) from on-going operations considerably exceeded the outflow of funds for investment activities which amounted to €574m (+92%). Investments totalled €1,278m gross, of which €554m were spent on fixed assets, €501m (+26%) on leased equipment and €223m on affiliates and other financial investment. Expenditure on research and development increased by 18% to €620m.

Earnings fall in 2001

The MAN Group´s net earnings position was influenced by extremely varied trends in the separate divisions and by extraordinary costs incurred at the British subsidiary ERF, where a major case of balance-sheet falsification, as well as operating losses, were discovered in the summer of 2001. MAN Group earnings before interest and taxes (EBIT) amounted to €416m, after €784m in 1999/2000, while consolidated pre-tax earnings reached €213m (€668m).

Earnings in the Commercial Vehicles Division (-€49m) were negatively affected by the operating losses at ERF (-€70m) and by provisions for the restructuring measures to be carried out at ERF during 2002 (-€23m), as well as by losses from its bus activities (-€54m), although the MAN truck business achieved earnings of +€98m. As a result of extremely satisfactory sales, Industrial Services showed earnings of +€104m (+39%), Printing Systems +€89m (+13%) and Diesel Engines +€75m (+39%), each reaching the best result of their trading history. Due to losses of -€9m (1999/2000: +€68m) in the SMS group, overall earnings in the Industrial Equipment and Facilities Division deteriorated to + €63m (-55%), while Financial Services were able to increase their result to €15m (+25%). The earnings figure for the holding company, including other companies (-€84m), was reduced by €94m as a result of expenditure on streamlining and restructuring ERF up until 31.12.2001.

The MAN Group´s net profit for the year declined to €151m (€424m), including the -€82m impact of costs incurred at ERF. Earnings per share amounted to €1.01 (1999/2000: €2.52) and to €1.56 excluding the ERF costs. On 21 March 2002, the Executive Board will be proposing a dividend distribution of €0.60 per share to the Supervisory Board, after €0.50 for the short financial year in 2000 and €1.00 for the year 1999/2000. The comparative decrease in the dividend of €0.40 is equivalent to the decrease in earnings per share, not including the extraordinary costs at ERF.

In view of the adverse net earnings position, MAN Group returns for the year 2001 were decidedly lower than our defined targets. The return on invested capital amounted to 7.5% after 15.9% in 1999/2000, and the return on sales to 1.3% (4.6%).

Outlook 2002

At the beginning of the new 2002 financial year, there are signs that the economic downswing is levelling out in the USA. As far as our cyclical business is concerned, new orders are recovering compared with the last few months of 2001; however this cannot yet be interpreted as a definite trend and on balance, demand is likely to remain subdued for some time to come. Prompted by the recovery in the global economy anticipated later in 2002, prospects for the German economy will improve noticeably.

Based on this scenario, the MAN Group has set itself the ambitious goal of reaching a volume of €15.5 to €16bn, both in new orders and in sales. In the case of commercial vehicles, we are expecting the truck market in Western Europe to decline yet another 10 – 12% in terms of volume during 2002. Nor is the demand for printing systems in 2002 likely to match last year´s level. Meanwhile, the performance of companies involved in the industrial plant sector will depend on securing new orders from the increasing proportion of project-related activities.

In all divisions, we shall invariably continue with our current restructuring measures in order to reduce costs, improve our competitive strength and further enhance our products. Especially in the case of Commercial Vehicles, the turnaround programme will be swiftly implemented. By the beginning of February 2002, 75% of the reduction of 4,400 employees announced in July 2001 (including temporary staff) had already been realised. By mid-2002, MAN Nutzfahrzeuge will have completed the remaining personnel adjustments involving 1,200 employees, as planned.

In those sectors engaged in the production of industrial plant and equipment, the sustained overall high level of orders on hand will to a large extent offer job security, whereas in the case of commercial vehicles and sheetfed printing systems in particular, the shorter throughput times will have an earlier impact on capacity utilisation. Compared with the previous year, this will lead to a marked decline in sales during the first two quarters, which in spite of cost savings, will inevitably affect earnings.

Performance trends for the Group companies are expected to vary. Commercial Vehicles and the SMS group should cease to generate losses in 2002; it is hardly probable that Industrial Services and Printing Systems will be able to equal their high 2001 level in terms of earnings. If the economic recovery forecast for the USA during the first half of 2002 actually materialises and does spread to Europe during the second half of the year, the MAN Group will be able to improve its earnings in 2002 compared with 2001. The scale of this improvement will depend largely on economic developments, but also on the extent to which our assumptions relating to trends in margins and personnel costs can be realised. In the following year of 2003, we are expecting to reach the level of profitability of earlier years, based on climbing volume sales of our products and the full effect of improved cost structures.

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The MAN Group: an overview of its key figures

MAN Group	2001 €m	1999/2000 €m	Change in %
New orders			
Germany	4,026	4,623	- 13
Foreign	11,652	11,017	+ 6
Total	**15,678**	**15,640**	**0**
Sales			
Germany	4,457	4,418	+ 1
Foreign	11,843	10,163	+ 17
Total	**16,300**	**14,581**	**+ 12**
Orders on hand *)	**10,313**	**10,962**	**- 6**
Employees (numbers)			
Germany *)	51,240	50,611	+ 1
Foreign *)	26,366	25,993	+ 1
Total *)	**77,606**	**76,604**	**+ 1**
Capital expenditure	**1,278**	**1,217**	**+ 5**
- of which on fixed assets	554	537	+ 3
- of which on affiliates & other financial investment	223	283	- 21
- of which on leased equipment	501	397	+ 26
Research and Development	**620**	**527**	**+ 18**
Cash flow from operating activities	**697**	**401**	**+ 74**
Cash flow from investment activities	**(574)**	**(299)**	**+ 92**
- of which fixed assets	(383)	(503)	- 24
- of which affiliates & other financial investment	(138)	532	-
- of which leased equipment	(53)	(328)	- 84
Earnings before interest and taxes	**416**	**784**	**- 47**
Earnings before taxes	**213**	**668**	**- 68**
Net profit	**151**	**424**	**- 64**
Earnings per share in €	**1.01**	**2.52**	**- 60**
Dividend per share in € **)	**0.60**	**1.00**	**- 40**

*) as of 31 December 2001 compared with 31 December 2000
**) proposed dividend 2001

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Performance of the Divisions

New Orders per Division	2001 €m	1999/2000 €m	Change in %
Commercial Vehicles	6,272	6,274	0
Industrial Services	2,737	2,927	- 6
Printing Systems	1,993	2,095	- 5
Diesel Engines	1,489	1,192	+ 25
Industrial Equipment and Facilities	3,436	3,268	+ 5
Financial Services	635	267	+ 138
Other, consolidated	(884)	(383)	-
New orders MAN Group	15,678	15,640	0

Sales per Division	2001 €m	1999/2000 €m	Change in %
Commercial Vehicles	6,741	5,755	+ 17
Industrial Services	2,855	2,541	+ 12
Printing Systems	2,081	1,848	+ 13
Diesel Engines	1,415	1,106	+ 28
Industrial Equipment and Facilities	3,572	3,446	+ 4
Financial Services	513	267	+ 92
Other, consolidated	(877)	(382)	-
Sales MAN Group	16,300	14,581	+ 12

Orders on hand	Dec. 31, 2001 €m	Dec. 31, 2000 €m	Change in %
Commercial Vehicles	1,415	2,318	- 39
Industrial Services	2,263	2,414	- 6
Printing Systems	1,273	1,406	- 9
Diesel Engines	1,022	957	+ 7
Industrial Equipment and Facilities	3,719	3,884	- 4
Financial Services	682	-	-
Other, consolidated	(61)	(17)	-
Orders on hand MAN Group	10,313	10,962	- 6

Earnings before interest and taxes/EBIT	2001 €m	1999/2000 €m	Change in %
Commercial Vehicles	64	353	- 82
Industrial Services	106	68	+ 56
Printing Systems	93	96	- 3
Diesel Engines	89	61	+ 46
Industrial Equipment and Facilities	67	131	- 49
Financial Services	67	46	+ 46
Holding, other, consolidated	(70)	29	-
EBIT MAN Group	416	784	- 47

Earnings before taxes/EBT	2001 €m	1999/2000 €m	Change in %
Commercial Vehicles	(49)	269	-
Industrial Services	104	75	+ 39
Printing Systems	89	79	+ 13
Diesel Engines	75	54	+ 39
Industrial Equipment and Facilities	63	140	- 55
Financial Services	15	12	+ 25
Holding, other, consolidated	(84)	39	-
Earnings before taxes MAN Group	213	668	- 68
Taxes on income	(62)	(244)	-
Net profit MAN Group	151	424	- 64

Commercial vehicles

Faced with a 4.5% drop in the market volume in Western Europe, the Commercial Vehicles Division was still able to maintain the same level of new orders as the previous year, reaching €6.3bn, with changes in the scope of consolidation accounting for 6 percentage points. €5.3bn of these orders related to trucks (–2%) and €1.0bn to buses (+17%, comparable basis –4%). Sales increased by 17% (comparable basis 9%) to €6.7bn. The share of the Western European market for trucks over 6t reached 16.3%, after 15.7% in the previous year. Earnings in the Commercial Vehicles Division (EBIT +€64m, EBT -€49m) were adversely affected by the downward market trend and by a series of special factors. In line with this, the return on invested capital fell by 16.7% to 2.8%, the EBIT return reaching +0.9% and the return on sales a negative figure of -0.7% (4.7%).

The MAN truck sector continued to perform profitably, achieving an EBIT of €181m and an EBT of €98m. It became evident in the course of 2001 that the original targets could no longer be upheld in terms of margins and volume sales in view of the significant drop in new orders, poor sales conditions, the accrual of considerable contingency funds to cover liabilities on returned goods, as well as additional costs arising from the parallel production of old and new truck generations. Consequently, a comprehensive turnaround programme was initiated, aimed at realising a sustained improvement in profitability by way of cost reductions, limited focus of the production plants on one truck series and organisational restructuring. A reduction in the numbers of employees already led to a noticeable easing of the cost burden during the fourth quarter of 2001.

Earnings in the Commercial Vehicles Division were affected by the operating losses incurred at ERF during 2001 (EBIT -€58m, EBT -€70) and by provisions for additional restructuring measures to be carried out at ERF during 2002 (-€23m). An entirely new, expanded range of ERF vehicles will be presented at the Birmingham Motor Show in April 2002, making greater use of MAN´s modular system. This means that in England, MAN´s Commercial Vehicles Division will be continuing to consistently pursue a two-brand strategy each with their own fittings and features, as well as with two separate sales and service networks. Assembly of the new ERF vehicles will be relocated to works in Germany and Austria. ERF headquarters incl. administration and sales departments as well as special assembly operations will remain at the Middlewich plant, where reduced technical and manufacturing facilities will be maintained. This will result in considerable personnel reductions at the ERF Group from originally around 1,070 to approximately 500 employees. This will also be achieved by amalgamating back-office functions with MAN´s British import firm. It is planned that ERF will begin to contribute to our operating result by the fourth quarter of 2002.

Recording an EBIT of –€36m and an EBT of –€54m, the bus sector showed a considerable loss. Factors contributing to this included a marked deterioration in market-price conditions and unsatisfactory cost structures. As a result of integrating NEOPLAN from mid-2001 onwards and the ensuing reorientation of the entire bus sector, we are expecting sustained cost-savings in the areas of product development, purchasing and in manufacturing itself. A far-reaching turnaround programme has also been drawn up for the bus activities, including relocation of wage-intensive manufacturing content to the bus works in Poznan and Ankara.

Industriel Services

The global slowdown in investment activity and delays in awarding large-scale projects resulted in incoming orders declining 6% to €2.7bn. Sales increased by 12% to €2.9bn. The EBIT showed a strong improvement to €106m (+56%), and earnings before taxes to €104m (+39%). Return on invested capital rose from 14.9% to an excellent 20.2%, the return on sales from 3.0% to 3.7%.

Printing Systems

Beginning in the USA, the demand for printing systems, in particular sheetfed systems, decreased noticeably in the course of 2001. New orders in the Printing Systems Divisions of €2.0bn failed to match the level of the previous year (-5%). On the other hand, sales rose by 13% to €2.1m. The EBIT of €93m (-3%) was marginally below 1999/2000, with the EBT improving by 13% to €89m. Return on invested capital continued at a constantly high level, registering 20.1% (19.1%), while the return on sales amounted to 4.3%, as in 1999/2000.

Diesel engines

Diesel Engines showed strong growth in business volume and earnings in 2001. New orders increased by 25% to €1.5bn, with sales climbing by 28% to €1.4bn. Some 9 percentage points of this growth were attributable to the sector of high-speed four-stroke engines, which was included in the figures for the first time since the takeover of the British firm ALSTOM Engines on 1 April 2000. A further 8 percentage points resulted from the two-stroke engine activities which recorded an exceptional increase due to a high demand for marine engines. Owing mainly to the positive business performance of the two-stroke engine sector, strong increases were registered with an EBIT of €89m (+46%) and an EBT of €75m (+39%). The return on invested capital improved from 12.5% to 17.4%, the return on sales rising from 4.9% to 5.3%.

Industrial Equipment and Facilities

New orders recorded by the sub-groups engaged in the production of industrial equipment and facilities increased by 5% to €3.4bn. In the turbomachine sector, these rose by 54% as a result of additional volumes contributed by Sulzer Turbomaschinen, which was acquired during the year under review. RENK, SHW and the SMS group registered slight increases, whereas in the case of MAN Technologie, which was unable to book any new ARIANE 5 orders during 2001, and in the case of DWE, incoming orders were appreciably lower than the previous year. It was possible to increase sales by 4% to €3.6bn with rises in the sectors of turbomachines, MAN Technologie, RENK and SHW being offset by declining sales in the SMS group and at DWE.

Earnings in the Industrial Equipment and Facilities Division fell in the case of the EBIT to €67m (-49%) and of the EBT to €63m (-55%). This drop originated largely from the SMS Group, which for the first time showed a loss caused by high expenditure on processing individual orders, as well as on concentration and capacity-adjustment measures at SMS Demag's plant and rolling mill operations. Here again, a turnaround programme is underway that should bring a return to positive earnings from 2003 onwards. Earnings at MAN Technologie and DWE were lower than in 1999/2000, while turbomachines and SHW were able to show strong increases and RENK successfully maintained the very high level of the previous year. In view of the weak figures recorded by the SMS group, the return on invested capital fell from 17.0% to 8.8%, and the return on sales from 4.1% to 1.8%.

Financial Services

The business volume in the Financial Services Division continued to rise, especially in the sector of sales financing for commercial vehicles. Total assets decreased from €1.7bn to €1.5bn following disposal of part of the leasing portfolio worth around €500m to an outside finance company. Sales increased by 92% compared with 1999/2000 to reach €513m. Earnings before taxes improved to €15m (+25%).

MAN Aktiengesellschaft
The Executive Board