News service MAN Group

Interim report for the three months ended 31 March 2002

Press release of
May 15, 2002

MAN Group: Predicted decline in first quarter

As predicted, business performance in the MAN Group declined during the first quarter of 2002. Sales reached €3.1 billion, 7% less than in the first quarter of 2001 and new orders dropped by 18% to €3.5 billion. The earnings position reflected the particularly weak inflow of new orders during the autumn of 2001, especially in those divisions involved in quick–turnaround business, and was, as expected, negative due to losses in the Commercial Vehicles and Industrial Equipment and Facilities sectors. However, MAN Technologie unexpectedly suffered from significant extraordinary effects following losses at the European space company, Arianespace and the insolvency of Fairchild Dornier. Consolidated earnings before interest and taxes (EBIT) amounted to – €38 million, after €138 million, and before taxes to – €75 million after €91 million. This represented a loss of €0.24 (profit of €0.35) per share.

In spite of lower figures compared with the very good first quarter of 2001, demand recovered against the extremely weak months of September to November 2001 and in most cases results were within the scope of our budget for 2002. We are adhering to our targets for 2002 of reaching both new orders and sales of between €15.5 and €16 billion and of improving pre–tax earnings compared with 2001 (€213 million). Based on current estimates, our goal of improving earnings is under greater initial pressure than expected at the beginning of the year, due largely to the unpredicted extraordinary effects. Although demand is still subdued in most areas, an upward tendency is evident in the case of trucks. Based on the current project status, we should be in a position to make up for most of the shortfall recorded in the case of major orders.

MAN Group € million	2002 Jan. – March	2001 Jan. – March	Change in %
New orders	3 529	4 281	– 18
Sales	3 104	3 352	– 7
Earnings before interest and taxes	(38)	138	–
Earnings before taxes on income	(75)	91	–
Earnings after taxes on income	(43)	59	–
Earnings per share in €	(0,24)	0,35	–

First– quarter performance 2002

During the first quarter of 2002, **new orders** remained, as predicted, below the high comparable figure for the previous year, reaching €3,529 million. About two thirds of the drop of €752 million, or 18%, i.e. 12 percentage points, were due to a lower volume of major orders and about one third to current operations.

Sales of €3,104 million were €248 million or 7% lower than during the comparable period. Following high settlements in the preceding quarter and in view of the lower level of orders at the beginning of the year in areas of activity with shorter throughput times, this decrease in sales was in line with expectations.

In relative terms, performance on foreign markets continues to be better than in Germany. In the case of both new orders and sales, a lower minus figure was registered abroad than on the domestic market. As a result, the share of new foreign orders climbed to 73% (72%) and the share of foreign sales to 75% (73%).

Since the volume of new orders was higher than sales, **orders on hand** rose during the first quarter. Reaching €10,705 million at 31 March 2002, these were 4% higher than at 31 December 2001.

As of 31 March 2002, the MAN Group numbered 76,494 **employees**, which was 1,112, or 1.4% fewer than on 31 December 2001.

Capital expenditure of €235 million was 19% less than the same quarter of last year. As previously forecast, we recorded a particularly marked decrease in capital expenditure on tangible fixed assets compared with the continuously rising volumes in previous years. Expenditure on **research and development** amounted to €134 million, a further 4% higher than over the comparable period.

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General overview of the MAN Group

€ million	2002 Jan. – March	2001 Jan. – March	Change in %
New orders			
Germany	946	1 193	– 21
Foreign	2 583	3 088	– 16
	3 529	**4 281**	**– 18**
Sales			
Germany	762	921	– 17
Foreign	2 342	2 431	– 4
	3 104	**3 352**	**– 7**
Orders on hand*	**10 705**	**10 313**	**+ 4**
Employees* (number)			
Germany	50 051	51 240	– 2
Foreign	26 443	26 366	–
	76 494	**77 606**	**– 1**
Capital expenditure	**235**	**289**	**– 19**
of which on tangible and intangible fixed assets	85	130	– 35
of which on assets leased out	133	145	– 7
of which on equity interests and other financial investments	17	14	+ 21
Depreciation on fixed assets	143	144	– 1
Research and development	**134**	**129**	**+ 4**
Earnings before interest and taxes / EBIT	**(38)**	**138**	–
Net interest payable	**(37)**	**(47)**	**+ 21**
Earnings before taxes on income	**(75)**	**91**	**–**
Income taxes	**32**	**(32)**	–
Net income for the period	**(43)**	**59**	–
Earnings per share in €	**(0,24)**	**0,35**	–

* Figure at closing date of 31 March 2002 compared with 31 December 2001

Earnings position

The MAN Group recorded a loss for the first quarter of 2002, with **earnings before interest and taxes** of – €38 million (after €138 million the previous year) and **earnings before taxes** of – €75 million (€91 million). This accrued on the one hand from the Commercial Vehicles Division, where capacity utilisation and sales declined appreciably during the first quarter due to the extremely weak inflow of new orders between the months of September and November 2001, and on the other hand from losses in the Industrial Equipment and Facilities Division. These were a reflection of the unscheduled extraordinary effects registered by MAN Technologie as a result of writing off half our investment in Arianespace, fewer

new orders and provisions for restructuring in the aerospace sector. Added to this were adjustments for losses following the insolvency of Fairchild Dornier. The plastics processing sector of the SMS group also recorded a marked loss due to the low levels of incoming orders and sales. Industrial Services and Diesel Engines reported positive results equal to the level of the previous year, while Printing Machines only reached breakeven since a continuing positive performance in the webfed sector was counteracted by lower sales of sheetfed systems.

Earnings after taxes in the MAN Group amounted to – €43 million after €59 million in the comparable quarter. Of this, – €7 million was attributable to minority interests and – €36 million to MAN AG. **Earnings per share** amounted to – €0.24 € after €0.35.

Outlook

In view of the overall restrained economic trend in the first few months of 2002, further developments are subject to some uncertainty. Economic research institutes are still assuming, although with rather more reservations, that the global economy will begin to grow again during the second half of the year, starting in the USA. Economic forecasts for Germany have recently been revised downwards to no more than +0.9%.

As far as the MAN Group is concerned, based on the current project status and the positive development in new orders for trucks during April, we are optimistic that we can still achieve our goal of generating both new orders and sales of some €15.5 to €16 billion for the full year of 2002. Apart from future economic trends, this will also depend particularly on the timely realisation of several major projects.

With regard to results in the various divisions, at the moment we still consider it possible to achieve a distinct improvement and at least reach breakeven in the Commercial Vehicles sector, in spite of its first–quarter loss and the anticipated drop in business volume over the full year. This also applies for the SMS group. In the case of Industrial Services, Printing Machines and Diesel Engines, earnings will be decidedly positive, but no longer reach the record figures of 2001. Earnings in the Financial Services sector should more or less equal the level of the previous year. The Industrial Equipment and Facilities Division will show a marked deterioration, due especially to the surprising negative performance at MAN Technologie. The holding company will show a distinct improvement in earnings as the negative effects of ERF will be eliminated.

Extensive programmes launched in 2001 to increase productivity and reduce product costs and overheads throughout the entire Group are intended to lay the foundation for a return to reasonable results from 2003. At MAN Nutzfahrzeuge for example, new profit centres have been introduced along the value chain to realise substantial cost–savings and increase efficiency by each focusing on its own field of activity. Measures to adjust personnel downwards by 4,400 are being implemented according to plan and due to be completed by mid– 2002. Due to sustained weakness on the bus market, we will need to draw up additional measures in this sector. MAN Roland

Druckmaschinen has introduced new product management for each group of products, each holding responsibility for its own costs and earnings, while reductions in personnel expenses are also underway in this sector. MAN Technologie will be adapting to the changing market conditions in the aerospace industry by way of an extensive restructuring programme. MAN B&W Diesel is reorganising its four–stroke activities, currently divided across four countries, to create a new, more transparent profit–centre structure which will lead to appreciable savings in the mid–term. At SMS Demag, the integration and restructuring measures have for the most part reached completion and the positive effects are already becoming evident.

In figures, all these programmes taken together should lead to improved earnings potential of around €700 million by 2005, compared with status at the beginning of 2001. Of this, more than €400 million should become effective in 2003. How much of this will actually be realised depends on the economic situation and price trends, as well as other positive and contrary effects, so that a reliable forecast is not possible at the present time.

Our unwavering target for 2002 is still to improve the unsatisfactory results of 2001. Our success ultimately depends on how the economic situation actually develops. Negative factors could prove to be the possible inflated wage agreement in the metal industry and future developments at MAN Technologie, which cannot be entirely assessed at the present time. Overall, there are a considerable number of initial negative factors influencing this goal of improving our results.

However, we shall by all means create the prerequisites for participating in the forthcoming upswing. We are confident of accelerating our profit performance from 2003 onwards and once again moving closer to our targeted returns of 15% on capital employed and 5% on sales.

Overview: Performance in the Divisions

New orders	**2002**	**2001**	**Change**
€ million	Jan. – March	Jan. – March	in %
Commercial Vehicles	1 599	1 670	– 4
Industrial Services	556	796	– 30
Printing Machines	362	586	– 38
Diesel Engines	302	406	– 26
Industrial Equipment and Facilities	664	899	– 26
Financial Services	172	99	+ 74
Other, Consolidated	(126)	175	–
New orders MAN Group	**3 529**	**4 281**	**– 18**

Sales € million	2002 Jan. – March	2001 Jan. – March	Change in %
Commercial Vehicles	1 352	1 547	– 13
Industrial Services	464	534	– 13
Printing Machines	376	414	– 9
Diesel Engines	311	289	+ 8
Industrial Equipment and Facilities	573	658	– 13
Financial Services	172	99	+ 74
Other, Consolidated	(144)	(189)	–
Sales MAN Group	**3 104**	**3 352**	**– 7**

Earnings before interest and taxes € million	2002 Jan. – March	2001 Jan. – March	Change in €m
Commercial Vehicles	(54)	48	– 102
Industrial Services	18	20	– 2
Printing Machines	2	19	– 17
Diesel Engines	19	17	+ 2
Industrial Equipment and Facilities	(41)	1	– 42
Financial Services	22	27	– 5
MAN AG, Consolidated	(4)	6	– 10
EBIT MAN Group	**(38)**	**138**	**– 176**

Earnings before taxes € million	2002 Jan. – March	2001 Jan. – March	Change in €m
Commercial Vehicles	(75)	18	– 93
Industrial Services	20	22	– 2
Printing Machines	0	17	– 17
Diesel Engines	16	16	0
Industrial Equipment and Facilities	(43)	6	– 49
Financial Services	5	10	– 5
MAN AG, Other	2	2	0
Earnings before taxes MAN Group	**(75)**	**91**	**– 166**

The operating divisions in detail

Reaching €1,599 million, new orders in the **Commercial Vehicles Division** were 4%, over the comparable period (without NEOPLAN) 11%, below the positive figure of the previous year, but nevertheless higher than in the last two quarters. In April, it was possible to reduce this shortfall in new orders compared with the previous year. First–quarter sales of €1,352 million were 13%, and based on a comparable scope of consolidation, 20% lower. This was a reflection of the very weak inflow of new orders, especially between the months of September and November 2001, coupled with the low level of production output caused by works holidays at the beginning of the year. As a result of these lower production and sales figures, as well as the continuing loss situation at ERF and the unsatisfactory utilisation of capacities in the bus sector, the Commercial Vehicle Division suffered losses with both its bus (– €34 million) and truck (MAN – €26 million, ERF – €15 million) operations. Earnings before interest and taxes amounted to – €54 million after €48 million the previous year and earnings before taxes to – €75 million (€18 million). For the remaining quarters of 2002, we are predicting that very positive results in the truck sector will offset losses from the bus activities and at ERF.

New orders in the **Industrial Services Division** reached €556 million, 30% below the level of last year. This drop was almost entirely due to a sharp reduction in the volume of major orders; based on the current project status, we are optimistic of being able to make up for this shortfall in the course of the year. Current business of – 2% almost equalled the level of last year. Sales amounted to €464 million (– 13%). Due to the long– term nature of the business in several areas, the decline in incoming orders had little effect on earnings. The EBIT of €18 million and pre– tax earnings of €20 million were both only marginally lower (– €2 million) than the figures for the same period last year.

In the case of the **Printing Machines Division**, new orders fell to €362 million, 38% below the high, above– average figure recorded for the first quarter of the previous year; there are however signs of a recovery compared with the particularly weak last few months of 2001. Sales decreased by 9% to €376 million, the EBIT falling from €19 million to €2 million and earnings before taxes to €0 million after €17 million.

New orders in the **Diesel Engines Division** amounted to €302 million, 26% lower than the previous year. This drop mainly affected the two–stroke engine business, but also the high– speed four– stroke engines due to the decline in new major contracts. Sales reached €311 million, 8% more than over the same period last year. The EBIT amounted to €19 million, after €17 million the previous year, while earnings before taxes remained unchanged at €16 million.

In the **Industrial Equipment and Facilities Division**, new orders of €664 million were 26% lower than for the comparable period. Two thirds of this shortfall resulted from a lower volume of major orders, especially in the SMS group´s metallurgical plant and rolling mill sector, and one third from on–going operations. Sales fell by 13% to €573 million following the above–average figures registered in most sub–groups during the last quarter of the previous year. Earnings came under strong pressure from the negative developments at MAN Technologie and in the plastics–processing sector, as outlined at the beginning of this report. Before interest and taxes, they dropped to – €41 million after +€1 million, and before taxes to – €43 million, after +€6 million.

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Business volume continued to grow in the **Financial Services Division**. Incoming orders and sales increased by 74% to €172 million. Earnings before taxes fell by €5 million to €5 million, being influenced by changes in the scope of consolidation compared with the same quarter of the previous year.

MAN Group: Consolidated financial statements for the first quarter ended 31 March 2002

General principles

The interim report has been prepared according to IAS 34 and is based on the accounting and valuation methods used for the previous consolidated financial statements as of 31 December 2001. The interim financial statements have not been audited.

The scope of consolidation includes 237 companies, after 250 companies at 31 December 2001. Changes in the scope of consolidation compared with 31 December 2001 result mainly from mergers and the disposal of companies. The effect on the statement of the Group´s assets, financial position and earnings is negligible.

In the course of setting up profit centres in the Commercial Vehicles Division, the allocation of sales and administrative expenses to manufacturing costs and other expenditure has been altered. The previous year´s figures have been restated for purposes of comparison.

MAN Group: Consolidated income statement

First quarter January – March 2002 € million	2002 Jan. – March	2001 Jan. – March
Net sales	**3 104**	**3 352**
Cost of sales	(2 571)	(2 687)
Gross margin	**533**	**665**
Selling expenses	(277)	(267)
General administrative expenses	(175)	(169)
Other operating income	96	104
Other operating expenses	(215)	(197)
Earnings before interest and taxes / EBIT	**(38)**	**138**
Net interest payable	(37)	(47)
Result from on ordinary operations	(75)	91
Income taxes	32	(32)
Net income for the period	**(43)**	**59**

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MAN Group: Consolidated balance sheet as of 31 March 2002
Assets

Assets € million	31.3.2002	31.12.2001
Intangible assets	458	469
Tangible assets	2 368	2 428
Assets leased out	835	760
Financial assets	194	190
Fixed assets	**3 855**	**3 847**
Inventories	4 909	4 618
Prepayments received	(2 779)	(2 582)
Trade receivables	3 523	3 600
Other receivables and current assets	599	598
Short-term securities	959	988
Cash and cash equivalents	446	571
Current assets	**7 657**	**7 793**
Deferred tax assets	**390**	**402**
Prepaid expenses and deferred charges	**62**	**48**
	11 964	**12 090**

Equity & liabilities € million	31.3.2002	31.12.2001
Equity MAN AG shareholders´ funds	2 533	2 568
Minority interests	273	294
Equity	**2 806**	**2 862**
Pension accruals	2 005	1 997
Tax accruals, deferred tax liabilities	520	583
Other accruals	2 093	2 020
Accruals	**4 618**	**4 600**
Financial liabilities	2 164	1 906
Trade payables	1 540	1 846
Other liabilities	763	800
Liabilities	**4 467**	**4 552**
Deferred income	**73**	**76**
	11 964	**12 090**

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MAN Group: Consolidated cash flow statement

First quarter January – March 2002 € million	2001 Jan. – March	2000 Jan. – March
Cash and cash equivalents at beginning of year	**571**	**620**
Net income for the period	(43)	59
Other non-cash expenses and income	157	155
Cash flow	**114**	**214**
Other changes in working capital	(386)	(359)
Net cash outflow from operating activities	**(272)**	**(145)**
Capital expenditure	(235)	(289)
Disposal of assets	64	41
Net cash outflow from investment activities	**(171)**	**(248)**
Dividends paid	(2)	(11)
Redemption of own shares	–	(86)
Net change in financial liabilities and short-term securities	322	366
Net cash inflow from financing activities	**320**	**269**
Net change in cash and cash equivalents	**(123)**	**(124)**
Other changes in cash and cash equivalents	(2)	27
Cash and cash equivalents at end of the period	**446**	**523**

MAN Group: Consolidated statement of changes in equity

First quarter January – March 2002 € million	Equity MAN AG shareholders´ funds	Minority interests	Total
Balance at 31 December 2001	**2 568**	**294**	**2 862**
Dividends paid for the previous year	–	(2)	(2)
Net income for the period	(35)	(8)	(43)
Redemption of own shares	–	–	–
Currency translation effects	(1)	1	0
All other changes	1	(12)	(11)
Balance at 31 March 2002	**2 533**	**273**	**2 806**
Balance at 31 December 2000	**2 662**	**301**	**2 963**
Dividends paid for the previous year	–	(11)	(11)
Net income for the period	54	5	59
Rückkauf eigener Aktien	(86)	–	&(86)
Currency translation effects	–	2	2
All other changes	42	20	62
Balance at 31 March 2001	**2 672**	**317**	**2 989**

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The Executive Board