News service MAN Group

Press release of
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MAN Group:
Final results for 2002 slightly better than expected

The MAN Group closed the economically difficult year of 2002 with slightly better results than expected. As in the previous year, new orders amounted to €15.7 billion, while sales of €16.0 billion were recorded, 2% less than in 2001. Earnings before taxes (EBT) reached €219 million, representing a slight increase compared with the previous year´s figure of €213 million. Earnings before interest and taxes (EBIT) fell to €391 million (€416 million).

The pressure on earnings resulting from the downswing on the market for printing systems, losses in the bus sector and extraordinary expenses incurred by MAN Technologie were more than compensated by improved operating income in the truck sector, the absence of any further extraordinary expenditure at ERF and lower interest expense. Industrial Services and Diesel Engines achieved a continuing high level of earnings. The other companies active in the sectors of Industrial Equipment and Facilities and Financial Services were able to improve earnings.

Owing to higher tax expenditure, consolidated net income for the financial year declined marginally to €147 million (€151 million). Since minority interests in revenue also increased, earnings per share fell to €0.92 (€1.01). The Executive Board will be proposing an unchanged dividend distribution of €0.60 per share to the Supervisory Board.

In view of the present economic and political environment, we anticipate no sweeping economic recovery in 2003 and consequently no substantial increase in the business volume generated by the MAN Group. Due to the significant earnings contribution expected from the Commercial Vehicles Division and the absence of any further extraordinary costs, particularly at MAN Technologie, we are predicting a sustained improvement for the MAN Group, the extent of which will largely depend on on-going economic developments.

Continuing weak economy

Although, a recovery in the global economic situation appeared to be emerging starting from the USA during the first half of 2002, this had reverted to a continuing slowdown by the summer of 2002. The economic revival expected for the euro zone failed to materialise, with economic activity stagnating especially in Germany and leading to a decline in demand for capital goods.

New orders match the level of the previous year

New orders received by the MAN Group reached €15.7 billion, matching the level of 2001. Commercial Vehicles (+4%) and Industrial Services (+16%) were able to improve their performance, both achieving new record figures. In the Printing Machines Division, incoming orders suffered a severe downturn (–23%). Diesel Engines (–8%), Industrial Equipment and Facilities (–4%) and Financial Services (–5%) registered lower incoming orders than the previous year.

Contributing a 64% (65%) share, Europe continued to be the most important regional market for the MAN Group, although order volumes declined minimally to €10.0 billion (€10.1 billion). The only growth region were the American markets, where the order intake increased by €0.3 billion to €2.5 billion. Order volumes in Asia reached just under 2.5 billion, equalling the level of the previous year.

Sales again exceeded €16 billion

Sales once again exceeded the €16-billion mark, but as expected, fell 2% short of the record figure of the previous year (€16.3 billion). Industrial Services (+2%), Diesel Engines (+0%) and Financial Services (+22%) were able to either improve or maintain their sales volumes. In the case of Commercial Vehicles (–3%), Printing Machines (–13%) and Industrial Equipment and Facilities (–2%), results failed to equal the 2001 figures.

Decline in order levels

Reaching €9.6 billion, orders on hand were 7% lower than the previous year. Commercial Vehicles (–4%), Printing Machines (–29%), Diesel Engines (–15%) and Industrial Equipment and Facilities (–6%) all reported lower order levels than one year earlier, while orders on hand in the Industrial Services sector showed a rise of 9%.

Continuing reductions in employees

As of 31 December 2002, the MAN Group registered 75,054 employees, 3.3% fewer than at 31 December 2001. On a comparable basis, the number of employees in the MAN Group decreased by 3,034 or 3.9%. In all divisions, the comparable numbers of personnel were lower than the previous year.

Cash flow, capital expenditure, research and development

The financial situation of the MAN Group recorded a positive development in 2002. In spite of a considerable drop in advance payments received by the industrial facilities sector, the net volume of funds committed in the form of inventories and receivables was successfully reduced even further, while the overall cash flow from continuing operations remained at the same level as 2001, reaching €697 million. Capital expenditure of €997 million (–22%) was significantly lower than the previous year, €463 million (–16%) being invested in fixed assets, including intangible assets, €62 million (–72%) in acquisitions and financial investments and €472 million (–6%) in assets for leasing activities. Income from asset disposals of €407 million (–37%) likewise remained below the level of the previous year, so that the outflow of funds from capital expenditure and financial investment of €591 million (+3%) was marginally higher than in 2001. The net financial debt was reduced by €86 million to €261 million.

Following the high volumes invested in previous years in developing the new TGA generation of commercial vehicles, expenditure on research and development decreased as planned to €580 million (–6%).

Slight improvement in pre-tax earnings in 2002

MAN Group earnings before interest and taxes (EBIT) reached €391 million, after €416 million in 2001, while earnings before taxes (EBT) improved to €219 million (€213 million).

Earnings performance varied in the different divisions in 2002. The Commercial Vehicles Division succeeded in completing its turnaround, even exceeding the breakeven originally forecast and reaching an EBT of €13 million (2001: –€49 million), although continuing high losses of –€84 million (–€54 million) had to be absorbed in the omnibus sector, as well as a recurring additional burden of –€45 million (–€93 million) at ERF. The main factors contributing to this positive performance were operational improvements in MAN´s truck sector, which achieved earnings of €142 million (€98 million) in spite of a 14% drop in sales.

Both Industrial Services with €85 million (€104 million) and Diesel Engines with €68 million (€75 million) achieved a high level of earnings. The Printing Machines Division suffered a severe downturn in earnings to €10 million (€89 million). Losses of –€39 million (2001: +€5 million) at MAN Technologie were for the most part due to allowances for depreciation in its aviation and aerospace operations. The remaining companies in the Industrial Equipment and Facilities Division were able to increase earnings to €68 million (€58 million) and the Financial Services sector to €17 million (€15 million). Earnings generated by the holding company improved to –€3 million (–€84 million) in the absence of the extraordinary expenditure incurred at ERF in 2001.

As a result of higher tax expenditure, MAN Group net profit for the year amounted to €147 million (€151 million), slightly less than the previous year. Due to the higher level of minority interests, earnings per share fell to €0.92 (2001: €1.01). At the Supervisory Board meeting to review the balance sheet figures 2002 taking place on 20 March 2003, the Executive Board will be proposing an unchanged dividend distribution of €0.60 per share.

In 2002, MAN Group returns were again considerably lower than our defined targets. The return on capital employed reached 6.9% (7.5%), the return on sales amounting to 1.4% (1.3%).

Outlook for 2003

The overall economic and political environment at the beginning of 2003 is discouraging and forecasts for economic development are overshadowed by considerable risks, both at a national and an international level. In this scenario, our financial plans envisage no substantial increase in business volume for the MAN Group in 2003. In spite of only weak movement towards an economic recovery, we anticipate a sustained improvement in earnings for the MAN Group due to the significant earnings contribution expected from the Commercial Vehicles Division and the absence of any further extraordinary costs, particularly at MAN Technologie. The extent of this improvement will depend largely on on-going economic developments, as well as the timing and momentum of any global economic revival.

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General overview of the MAN Group

MAN Group	2002 €m	2001 €m	Change in %
New Orders			
Germany	3,861	4,026	–4
Foreign	11,859	11,652	+2
Total	**15,720**	**15,678**	**0**
Sales			
Germany	4,213	4,457	–5
Foreign	11,827	11,843	0
Total	**16,040**	**16,300**	**–2**
Orders on hand (31.12.)	**9,597**	**10,313**	–7
Employees (number at 31.12.)			
Germany	48,863	51,240	–5
Foreign	26,191	26,366	–1
Total	**75,054**	**77,606**	**–3**
Total capital expenditure	**997**	**1,278**	**–22**
of which on tangible and intangible fixed assets	463	554	–16
of which on equity interests and other financial investments	62	223	–72
of which on assets leased out	472	501	–6
Research and development	**580**	**620**	**–6**
Cash inflow from operating activities	**697**	**697**	**0**
Cash outflow from capital expenditure	**–591**	**–574**	**+3**
Net financial debt (31.12.)	**261**	**347**	**–25**
Earnings before interest and taxes/EBIT	**391**	**416**	**–6**
Earnings before taxes/EBT	**219**	**213**	**+3**
Net profit	**147**	**151**	**–3**
Earnings per share in €	**0.92**	**1.01**	**–9**
Dividend per share in € *)	**0.60**	**0.60**	**0**

*) Proposed divided for 2002

Performance of the Divisions

New orders per Division	2002 €m	2001 €m	Change in %
Commercial Vehicles	6,525	6,272	4
Industrial Services	3,178	2,737	16
Printing Machines	1,542	1,993	–23
Diesel Engines	1,363	1,489	–8
Industrial Equipment and Systems	3,308	3,436	–4
Financial Services	602	635	–5
Other, consolidated	–798	–884	–
New orders MAN Group	**15,720**	**15,678**	**0**

Sales per Division	2002 €m	2001 €m	Change in %
Commercial Vehicles	6,564	6,741	–3
Industrial Services	2,916	2,855	2
Printing Machines	1,808	2,081	–13
Diesel Engines	1,408	1,415	–
Industrial Equipment and Systems	3,514	3,572	–2
Financial Services	628	513	22
Other, consolidated	–798	–877	–
Sales MAN Group	**16,040**	**16,300**	**–2**

Orders on hand per Division (31.12.)	31.12.2002 €m	31.12.2001 €m	Change in %
Commercial Vehicles	1,352	1,415	–4
Industrial Services	2,459	2,263	9
Printing Machines	904	1,273	–29
Diesel Engines	870	1,022	–15
Industrial Equipment and Systems	3,483	3,719	–6
Financial Services	653	682	–4
Other, consolidated	–124	–61	–
Orders on hand MAN Group	**9,597**	**10,313**	**–7**

Earnings before interest and taxes/ EBIT	2002 €m	2001 €m	Change in €m
Commercial Vehicles	102	64	38
Industrial Services	74	106	–32
Printing Machines	19	93	–74
Diesel Engines	83	89	–6
Industrial Equipment and Systems	37	67	–30
Financial Services	84	67	17
Holding, other, consolidated	–8	–70	62
EBIT MAN Group	**391**	**416**	**–25**

Earnings before taxes/EBT	2002 €m	2001 €m	Change in €m
Commercial Vehicles	13	–49	62
Industrial Services	85	104	–19
Printing Machines	10	89	–79
Diesel Engines	68	75	–7
Industrial Equipment and Systems	29	63	–34
Financial Services	17	15	2
Holding, other, consolidated	–3	–84	81
Earnings before taxes MAN Group	**219**	**213**	**6**
Taxes on income	–72	–62	–10
Net profit MAN Group	**147**	**151**	**–4**

Commercial Vehicles

In view of declining market volumes, the Commercial Vehicles Division performed well, acquiring new orders of €6.5 billion (+4%). Registering orders of €5.3 billion (+2%), the truck sector more or less maintained the level of 2001, whereas the bus sector showed an increase of 17% to €1.2 billion owing to a change in companies consolidated. Sales of €6.6 billion were generated, 3% less than the previous year. In spite of a difficult environment and a considerable downturn in unit sales (new trucks –14%), earnings registered a successful turnaround. Earnings of €13 million before taxes were distinctly positive compared with –€49 million in 2001. The EBIT rose by €38 million to €102 million. The return on capital employed improved to 4.3% (2.8%), and the return on sales to 0.2% (–0.7%).

Due to the generally weak economic climate, particularly in Western Europe, customer requirements in the transportation sector and their readiness to invest once again declined. In Western Europe, total new registrations of trucks over 6 t decreased by 12% to 287,000 compared with 2001. As a result, our most important market fell to its lowest level for five years, giving rise to increasingly intense price competition. We nevertheless continued to implement our strategy of improving profitability by refusing business yielding extremely low returns, accepting a subsequent drop in our share of the Western European market from 16.2% to 14.0%. The number of trucks delivered to customers decreased by 14%, while sales declined by only 5% to €5.4 billion, due partially to a definite shift in the product mix in favour of higher-quality vehicles.

The improvement in earnings in the Commercial Vehicles Division resulted from its truck activities. The turnaround projects initiated during 2001 led to substantial cost reductions, while manpower was continuously adjusted in line with falling volumes. Additional measures included savings on material and overheads, as well as enhanced organisational processes. These also led to a reduction in inventories and consequently lower interest expense. At the same time, the range of TGA models was completed and manufacture of the F2000 relocated to Vienna. In spite of declining volumes, the MAN truck sector (excluding ERF) was able to increase its EBIT by €36 million to €217 million and the EBT by €44 million to €142 million.

Restructuring measures at ERF were successfully implemented in 2002. Although as expected, the company suffered further losses, recording an EBT of –€45 million (EBIT –€43 million), these were however €48 million lower than the previous year. Production was discontinued at the ERF works in Middlewich in the third quarter, ERF vehicles now being manufactured in Germany based on TGA technology. Sales activities undertaken by MAN Nutzfahrzeuge in Great Britain continue to be based on a two-brand strategy. Further cost reductions will be realised during 2003 as a result of combining the back-office operations of ERF and MAN´s English sales subsidiary.

Demand also weakened on the European bus market. In the year under review, bus registrations fell to 23,900, following record annual levels of around 26,000 between 1999 and 2001. Due to consolidation of the Neoplan Group for a full financial period, the bus sector was able to increase sales by 13% to €1.2 billion, while sales generated by MAN buses fell by 9%.

The bus sector failed to reach its earnings targets in 2002, since the positive impact of the newly-introduced turnaround measures was inadequate to counteract the effects of declining volumes and non-recurring items of expenditure. Registering an EBT of –€84 million (EBIT –€72 million), losses were –€30 million higher than in 2001. This deterioration was due to full consolidation of Neoplan for the twelve-month period and the drop in volume sales. As a result of this loss situation, the product range, the manufacturing structure and the structuring of other activities are undergoing fundamental reorganisation. Based on a new platform strategy, the first coaches constructed with approximately one third of the previous number of components were successfully presented at the IAA 2002. The labour-intensive manufacture of shells and standard buses is no longer viable in Germany on a competitive basis and relocation of production activities to Starachowice (components), Poznan (city buses) and Ankara (coaches) is already underway. In the sectors of administration and sales, the MAN bus operations and Neoplan are to be integrated into a "NEOMAN" bus company, with separate sales teams marketing each brand. Supported by these measures, the intention is to achieve a positive result in the bus sector from 2005 onwards.

Industrial Services

Although economic trends varied in its different markets, the Ferrostaal Group was able to acquire several substantial major orders and successfully complete a series of large projects. These included commissioning its first ammonia plant and receiving an order for the construction of a second ammonia plant in Trinidad and Tobago. Incoming orders rose by 16% to reach a record figure of €3.2 billion. Sales increased by 2% to €2.9 billion.

Earnings reflected the levels of previous years, although as expected it was not possible to match the record figure of 2001. The EBIT amounted to €74 million (2001: €106 million) and the EBT to €85 million, €19 million lower than the previous year. The return on capital employed reached 14.8% after 20.2% in 2001, and return on sales 2.9% (3.7%).

Printing Machines

Once again, the market situation in the graphic industry deteriorated significantly during the 2002 financial year. The global slowdown in economic activity and an extremely weak market for advertising and promotion resulted in a severe downturn in demand for printing systems. New orders in the Printing Machines Division fell by 23% to €1.5 billion, of which €701 million (–16%) were contributed by the sheetfed business unit and €613 million (–32%) by webfed operations. Sales declined by 13% to €1.8 billion.

Following a record year in 2001, earnings deteriorated to show an EBIT of €19 million (2001: €93 million) and an EBT of €10 million (€89 million). Whereas the webfed sector again recorded very good earnings, a loss was suffered in the sheetfed sector, mainly due to extraordinary restructuring costs and customer-financing activities in the USA. The return on capital employed of 4.6% (20.1%) achieved by the group fell short of the required target, as did the return on sales of 0.6% (4.3%).

MAN Roland initiated a range of measures aimed at saving total costs of some €130 million throughout its entire group over the next few years. These will affect all three business units making up the world´s second-largest manufacturer of printing systems and market leader in the newspaper-printing sector, reducing costs by €80 million in the sheetfed sector, €35 million in the webfed sector and €15 million in the field of distribution and services, including the international sales network. In this way, MAN Roland intends to strengthen its profitability in the long term and improve its market position. The main objective is a more streamlined organisation which will also result in swifter reaction times.

Diesel Engines

Declining global demand for merchant-shipping capacity and energy, coupled with the renewed strength of the euro, caused diesel-engine customers to postpone investment decisions. The MAN B&W Diesel group nevertheless performed well in this market environment, acquiring new orders of €1.4 billion (–8%). This drop affected the two-stroke engine business, which had grown to an exceptionally high level in recent years. In the field of four-stroke, medium-speed engines, incoming orders again showed a marginal increase. Sales of €1.4 million equalled the level of the previous year.

In spite of higher costs incurred in restructuring the English subsidiary MBD Ltd. and reducing its production sites, the EBIT of €83 million (2001: €89 million) and the EBT of €68 million (€75 million) almost equalled the excellent figures recorded in 2001. Returns maintained their previous high level, the return on capital employed amounting to 16.8% (17.4%) and the return on sales to 4.9% (5.3%).

Industrial Equipment and Facilities

New orders registered by companies in the Industrial Equipment and Facilities Division declined by 4% to €3.3 billion, and by 8% on a comparable consolidation basis. MAN Technologie suffered from a sharp downturn in new orders from the aerospace industry. Following the exceptionally high figure achieved with major contracts in 2001, RENK reported the expected negative trend in incoming orders. In the SMS group, a decrease resulting from a marked downturn in the volume of major contracts was largely compensated by orders received by newly-acquired companies. The level of orders recorded by MAN Turbo, SHW and the remaining companies was more or less equivalent to the previous year. Sales in the Industrial Equipment and Facilities Division amounted to €3.5 billion (–2%, on a comparable basis –6%). RENK was able to improve slightly, while the remaining companies fell short of the previous year´s figures.

Earnings in the Industrial Equipment and Facilities sector fell to an EBIT of €37 million (2001: €67 million) and an EBT of €29 million (€63 million). This downswing stemmed from MAN Technologie which incurred high depreciation, restructuring costs and operating losses as a result of the fundamental deterioration in the business situation on the European aerospace market and the insolvency of its customer Fairchild Dornier; its EBT fell to –€39 million (2001: +€5 million). After recording a loss in 2001 (–€9 million), the SMS group generated an EBT of +€6 million in spite of continuing difficult trading conditions in several sectors. SMS initiated extensive restructuring projects in the sectors of both metallurgical and rolling-mill equipment and plastics technology, with a view to returning to the profitability levels of earlier years as from 2004. Earnings generated by MAN Turbo, RENK, SHW and the other companies belonging to the Industrial Equipment and Facilities Division were either close to or even exceeded our return targets.

High losses at MAN Technologie and the poor earnings contribution by SMS had a strongly adverse affect on returns. The return on capital employed reached 6.0% (8.8%) and the return on sales 0.8% (1.8%).

Financial Services

As a result of the weak economic trend in Germany and more restrictive credit ratings in the new-business sector, the Financial Services Division registered a lower volume of new leasing contracts. In spite of growth on foreign markets, new orders decreased to €602 million (–5%). Due to the growth in existing contracts recorded in previous years, sales rose by 22% to €628 million. The EBIT improved by €17 million to reach €84 million and the EBT by €2 million to reach €17 million.

MAN Aktiengesellschaft
The Executive Board