Engineering the future.

2005 Annual Report
MAN Group

At a glance

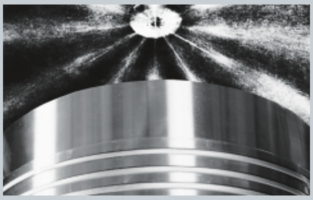
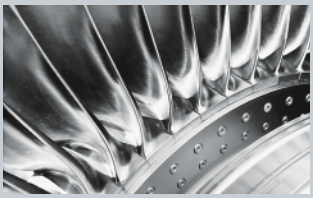
- Operating profit: €765 million (up from €557 million)
- ROS: 5.2% (up from 4.0)
- ROCE: 19.1% (up from 13.0)
- Earnings per share (EpS): €3.04 (up from €2.08)
- Proposed cash dividend: €1.35 (up from €1.05)
- Cash flow from operating activities: €1,267 million (up from €946 million)

€ million	2005	2004	Change in %
Order intake	17,994	15,645	15
Germany	4,065	3,850	6
Rest of the world	13,929	11,795	18
Sales	14,671	14,038	5
Germany	3,774	3,540	7
Rest of the world	10,897	10,498	4
Order backlog[1]	10,893	7,954	37
Employees (number)[1]	58,203	59,008	–1
Germany	36,331	37,297	–3
Rest of the world	21,872	21,711	1
Employees incl. temporary staff (number)[1]	60,776	61,325	–1
Germany	37,946	38,844	–2
Rest of the world	22,830	22,481	2
			Change in € million
Operating profit	765	557	208
Earnings before taxes on income (EBT)	638	442	196
Earnings after taxes on income	472	318	154
Earnings per share in €	3.04	2.08	0.96
Capital expenditures	440	389	51
Depreciation of tangible assets	378	402	–24
R&D expenditures	499	476	23
Cash earnings	876	762	114
Cash provided by operating activities	1,267	946	321
Cash used in investing activities	(378)	(341)	–37
Free cash flow	889	605	284
Cash and cash equivalents[1]	1,019	604	415
Net liquid assets[1]	173	8	165
Equity[1]	3,278	2,965	313

[1] Closing figure at December 31, 2005 compared with December 31, 2004

The MAN Group

MAN is one of Europe's leading engineering groups. As a systems provider employing some 58,000 people in its five core areas of Commercial Vehicles, Industrial Services, Printing Systems, Diesel Engines and Turbomachines, MAN operates in 120 countries. In 2005, MAN generated sales of €14.7 billion. The MAN Group ranks among the top three suppliers in each of its markets and is a technological leader. MAN's blue-chip shares are listed in the DAX30. ENGINEERING THE FUTURE.

Business Area	Profile
Commercial Vehicles 	MAN Nutzfahrzeuge is one of Europe's leading manufacturers of trucks and buses and with production facilities in Africa, Asia and Europe, is active on an international scale.
Industrial Services 	MAN Ferrostaal is a worldwide supplier of industrial services.
Printing Systems 	MAN Roland Druckmaschinen is a globally leading manufacturer and system supplier for the graphic industry.
Diesel Engines 	MAN B&W Diesel leads the world market for two-stroke propulsion engines and is the world's leading supplier of large four-stroke diesel engines.
Turbomachines 	MAN TURBO is one of the world's leading manufacturers of thermal turbomachines with production plants in Germany, Switzerland. and Italy.

Range of Products/Services	Key Figures (€ million)	2005	2004
– Trucks from 6 to 50 t to meet every need	Order intake	9,434	7,589
– City buses and luxury coaches	Sales	7,377	6,799
– Comprehensive vehicle services	Operating profit	469	322
– Engines for vehicles, marine and industrial applications	Employees*	33,368	33,810
– Transport solutions to meet specific customer needs across the world	Return on sales ROS (%)	6.4	4.7
	Return on capital employed ROCE (%)	17.9	12.6
– Leading general contractor for international plant engineering in the sectors of petrochemicals, oil and gas, power stations and metallurgy	Order intake	3,077	3,508
	Sales	2,789	3,185
	Operating profit	90	72
– International service-provider for supplying merchant vessels	Employees*	4,773	4,679
– Logistics services for the steel and automobile industries	Return on sales ROS (%)	3.2	2.3
– Sales and service partner for printing presses and packaging machinery	Return on capital employed ROCE (%)	38.1	34.1
– Global market leader in web-offset presses for newspaper and commercial printing	Order intake	2,109	1,885
	Sales	1,738	1,620
– Second-largest supplier of sheet-offset presses to the publishing, advertising and packaging industries	Operating profit	65	3
	Employees*	8,832	9,026
– Services and software products for all printing needs	Return on sales ROS (%)	3.7	0.2
	Return on capital employed ROCE (%)	23.2	0.6
– Two-stroke diesel engines for marine propulsion and power stations	Order intake	2,203	1,872
– Four-stroke diesel engines for marine propulsion, on-board power generation and power stations	Sales	1,666	1,421
	Operating profit	117	55
– Four-stroke dual-fuel and spark-ignited gas engines for power stations and offshore applications	Employees*	6,423	6,731
	Return on sales ROS (%)	7.1	3.9
– Exhaust-gas turbochargers	Return on capital employed ROCE (%)	26.1	10.9
– PrimeServ – after-sales services			
– Extensive range of products for the development, manufacture and assembly of customized plant and machine trains	Order intake	850	675
	Sales	694	659
	Operating profit	43	36
– Applications for the primary industry and for the oil and gas industry	Employees*	2,476	2,472
	Return on sales ROS (%)	6.2	5.5
– World's only center for assembling and testing sets of plant equipment weighing up to 1,000 t	Return on capital employed ROCE (%)	23.3	15.7

* Number at December 31, 2005 and 2004

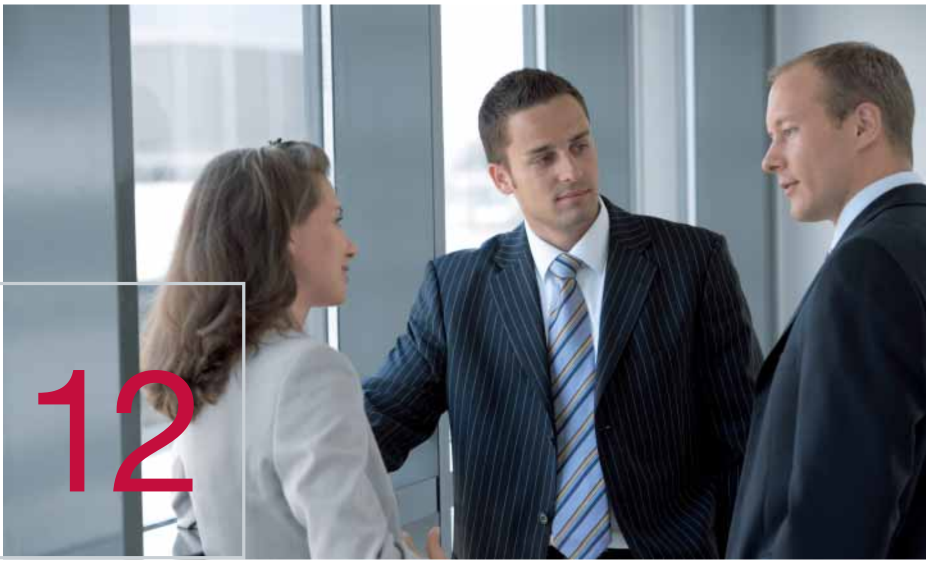
2005 was a year of change for the MAN Group

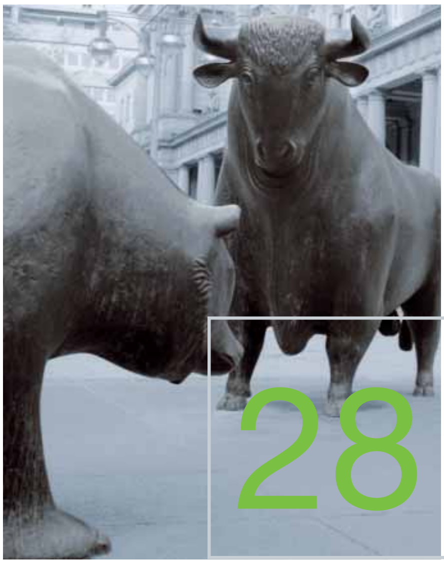
100% freefloat – Since January 2005, MAN AG shares have been 100% free floating following a share placement by major shareholders.

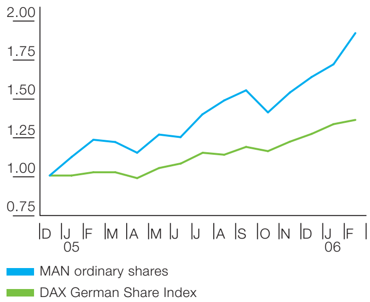
New structure – Disposal of peripheral activities led to concentration on core areas.

New management system – Industrial governance means strengthening entrepreneurial forces in the Business Areas within the scope of clear strategic parameters set by the Management Board.

Record figures – Incoming orders rose to an all-time high and operating profits increased by 37%. Climbing to 19.1%, the return on capital employed exceeded the 18% target figure for the first time, while the return on sales reached 5.2%.



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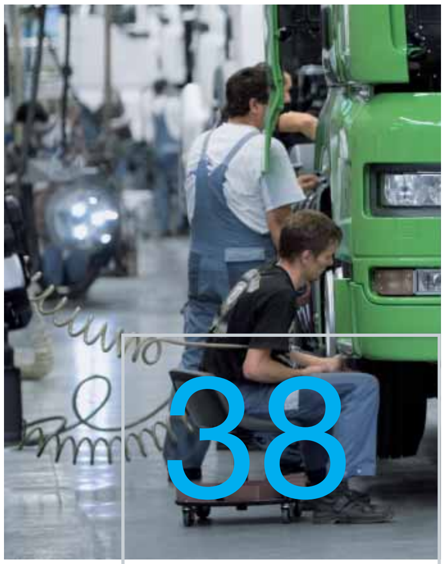
DAX German Share Index




ZUVERLÄSSIG
INNOVATIV
DYNAMISCH
OFFEN


MAN

Contents

Our Strategy

Our aims:

– Expand our leading positions worldwide.

– Concentrate on core areas.

– Enhance the competitive strength and profitability of the Business Areas.

– Continue to increase shareholder value.

Our principles:

– Each Business Area should have the scope to develop within the Group and must measure up to the best competitor in its field.

– Losses will not be tolerated and cross-subsidization ruled out.

To effectively realize these targets, the MAN Group adopted a new management concept in 2005 – "industrial governance". On the one hand, this means strategic management of the Group by the Management Board with the support of MAN's Corporate Center. On the other hand, it strengthens the operational responsibility of the decentralized Business Areas in achieving their mutually-defined goals. This system defines the basis for co-operation between the Corporate Center and the Business Areas in terms of strategy, leadership development and controlling. The concept is supported by common methods and the use of shared services.

It is founded on the four key values shaping the MAN brand – reliable, innovative, dynamic and open.

To our Shareholders

Håkan Samuelsson,
Chairman of the Executive Board

Dear Shareholders,

In many respects, the MAN Group of 2006 is no longer the same as at the beginning of 2005. We have had to face new challenges and undergo a process of fundamental change, the most important keywords being placement of the 24% share held by Regina Verwaltungsgesellschaft, our long-standing major shareholder, with some 150 international investors in January 2005, restructuring the Group by disposing of a total of seven peripheral areas and creating a new management structure. Added to these were two significant decisions affecting expansion of our international market presence, namely the construction of a commercial-vehicle plant in Niepołomice near Krakow, Poland and setting up a joint venture in India.

As a result, the MAN Group is now a global engineering group with clearly-focused Business Areas, each of which can present itself to customers worldwide as a leading and reliable supplier armed with considerable competence and experience. The new management system developed and meanwhile introduced under the name “industrial governance” is intended to create quantifiable value added and exploit to an even greater extent the considerable potential available in the MAN Group. To this end, our guiding principles were passed at the beginning of 2005. These state that each of our Business Areas should be able to develop within the Group structure and measure up to the best player in its own specific market. Losses will no longer be tolerated and cross-subsidization ruled out.

The change process was made easier by the fact that market demand was generally very good. This positive trend in the overall environment, coupled with the internal measures introduced in previous years to reduce costs and improve efficiency, gave rise to an extremely good business performance in 2005.

The order intake of €18 billion reached an all-time record, significantly exceeding the comparable 2004 figure of €15.6 billion. This was partially due to a series of major orders, most notably an order for a total of some 5,200 trucks from the British Ministry of Defence which are to be supplied successively up until 2013. Yet even excluding major orders, customers ordered 7% more than in 2004. In addition to commercial vehicles, contributions to this growth came mainly from diesel engines, web-fed printing systems and turbomachines. Sales rose by 5% to €14.7 billion with the manufacturing sectors registering a significantly larger increase of 9%. Industrial Services was the only area to record a drop in sales owing to declining steel prices, but this had no impact on its profitability.

Nourished largely by the lively export business, the positive order situation also led to a marked rise in the order backlog which, after amounting to about €8 billion in 2004, reached its highest-ever year-end level of €10.9 billion. Especially in the case of diesel engines, web-fed printing systems and turbomachines, this order backlog will make a major contribution to high capacity utilization over the next two to three years.

We comfortably achieved our earnings targets for 2005. The operating profit of €765 million is 37% higher than the comparable figure for the previous year of €557 million and “well over €700 million”, as predicted. As the largest Business Area, Commercial Vehicles made a particularly significant contribution with profits leaping by €147 million, as did the areas of Printing Systems and Diesel Engines. As a result, the targeted 18% return on capital employed was exceeded for the first time, after 13% in 2004. A rise in the return on sales from 4 to 5.2% brought us another step closer to reaching our target of 6%.

Net income of €472 million was generated in 2005 after €318 million on a comparable basis in 2004, while earnings per share amounted to €3.04 (2004 €2.08). I am pleased to announce that the Supervisory Board and the Executive Board have decided to propose, after an appropriate allocation to retained earnings, a dividend of €1.35 per share to the Annual General Meeting, compared with €1.05 for 2004.

A key goal in 2005 was to steer the sheet-fed printing press activities out of the red, having previously reported losses for several years. With considerable effort, it was possible to overcome the crisis in this sector and reach breakeven, which at the outset appeared to be a very ambitious goal.

To achieve this, it was necessary to close down sheet-fed press production in Geisenheim and streamline structures at the Offenbach works. Flexible models for working hours and wages were negotiated with the employees and it was necessary to reduce the workforce. The first stage is now complete and, following further structural changes, the sheet-fed press operations should, like all the others, achieve their return targets by 2007.

In the spring of 2005, the Executive Board launched the Industrial Governance Project. The underlying incentive resulted firstly from the new challenge arising from the 100% free float, and secondly from an awareness that a group comprising a Corporate Center and several Business Areas needs a clearly-defined and evenly-balanced allocation of roles to distinguish between centralized and decentralized tasks. For a structure of this kind, a management concept based on strategic industrial competence is far superior to a purely finance-driven administration. Furthermore, it was important to create an open and dynamic corporate and management culture.

The first step was to form a Management Board which, in addition to the Executive Board, includes two further top Business Area managers. All areas are now represented on the Management Board. This therefore constitutes a body in which decisions can be made centrally by all those concerned.

The management system meanwhile installed enables us to make sound strategic decisions, identify and develop management executives based on consistent, demanding criteria and to achieve ambitious performance targets with the support of controlling processes geared to entrepreneurial goals. Other important elements include defining common methods for solving problems that present themselves to all Group members and also creating shared services, which entails bundling identical services, such as IT operations or other administrative functions, into separate service companies.

2006 will be the first full year of working in accordance with the industrial governance concept. We are convinced that this new set of tools will help to make the MAN Group even more effective and more competitive. Our aim is to become better faster in all Business Areas. Based on comparisons with competitors, it is evident that in spite of the progress made, some ground still remains to be covered before drawing level with our most powerful competitors. This does not apply in terms of technology or the efficiency of our products and systems, MAN being among the best in the world in this regard. It does however apply to our rates of return and this is where we aim to make significant headway over the next few years.

To achieve this, we have defined return targets for the entire Group and for each individual Business Area, which we intend to reach on a lasting basis as an average across all trade cycles. This means that in times of buoyant economic activity, the MAN Group must generate returns on sales of well over 6% and returns on capital employed (ROCE) that significantly exceed 18%. Based on an average weighted cost of capital of 11%, we will then stand a good chance of considerably increasing the value of the company in the years to come. Achieving a return on sales of 5.2% in 2005 and an ROCE of 19.1%, we were able to register substantial increases compared with previous years. In the years to come, we intend to constantly achieve the target figures over an entire economic cycle.

In this respect, our strategy for international expansion will also play a role. Steps in this direction will initially be taken to seize opportunities offered by growth markets. Last year, a decision was for instance made to construct a new truck assembly plant for the Commercial Vehicles operations near the Polish town of Krakow. Agreement was also reached with the Indian company Force Motor on a joint venture for the production of heavy trucks in India to be sold both locally and in other regions outside Europe. This will also enable us to reduce production costs throughout the entire commercial vehicle network by, for instance, manufacturing components at cost-effective locations.

In addition to ongoing international expansion of the commercial vehicle operations, we are also geared to growth in all other core areas. For instance diesel engines – together with the industrial and marine engine unit at MAN Nutzfahrzeuge, MAN B&W Diesel is aiming to create additional synergies and exploit growth potential. Opportunities for growth are also available to Turbomachines, for instance in the rapidly growing fields of gas to liquid and the future-oriented sector of biomass to liquid.

I am of the opinion that, taken as a whole, the MAN Group is in good form and ready to grow by seizing its opportunities in the marketplace. We are also determined to achieve a continuing sustained improvement in both our earnings capacity and our competitive strength. Swift disposal of peripheral activities and concentration on the company's core lines of business coupled with an improved management system have given us a chance to realize these goals. Last year, the marked rise in our share prices showed that you, our shareholders, have already endorsed the course we have chosen to take. On behalf of the Executive Board, I should like to thank you for the confidence you have shown and ask that you continue to accompany us along our way.

Yours sincerely,

Håkan Samuelsson
Chairman of the Executive Board
MAN Aktiengesellschaft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Executive Board

Management Board

1 **Dipl.-Ing. Håkan Samuelsson**
Chairman, aged 54, appointed until December 31, 2009

2 **Prof. Dipl.-Ing. (FH) Gerd Finkbeiner**
Printing Systems, aged 48, appointed until June 30, 2009

3 **Karlheinz Hornung**
Finance and Controlling, aged 55, appointed until September 30, 2007

4 **Dr. jur. Matthias Mitscherlich**
Industrial Services, aged 56, appointed until October 31, 2007

5 **Dipl.-Ökonom Anton Weinmann**
Commercial Vehicles, aged 50, appointed until December 31, 2009

In addition to the Executive Board members listed above, two other Business Area directors also belong to the MAN Aktiengesellschaft Management Board:

6 **Jürgen Maus**
Turbomachines, aged 61

7 **Dipl.-Ing. Fritz Pape**
Diesel Engines, aged 64

As at March 1, 2006
Further information on the MAN Aktiengesellschaft Executive Board can be found on pages 158 to 159.

Strategic management based on industrial know-how

Agree, pursue and achieve goals as a team

Business Area employees assume more responsibility for their business activities and identify themselves more closely with their assignments.

Great importance is attached to individual responsibility When Anton Hamm stands in front of the COLORMAN XXL in the MAN Roland works in Augsburg, he can't help smiling. This reflects an element of pride in the "triple-story newspaper printing press" that reaches almost to the skylights in this vast factory building. But when he talks about the history of the "XXL", there are certain undertones of annoyance at the tedious process he and his colleagues had to go through before this printing press could be developed, designed and tested.

"We wanted to build it at all costs," recalls Anton Hamm, who at forty-seven is responsible for the Newspaper Press Business Unit in the web-fed printing sector. "We all agreed that it would hold its own in the marketplace." However, obtaining a development budget entailed not only convincing his own executive board based on detailed documentation and presentations, but also the controllers at Group headquarters in Munich. The so-called "Technology Team" made up of representatives from all business units had to meet again – with every development stage and all significant technical data having to be mapped out, lists of potential customers drawn up, risks and life-cycle costs calculated. The same time-consuming preliminary process that had already resulted in a positive assessment in his own division had to be repeated for Group headquarters, where the project was finally approved with some modifications.

Anton Hamm (left), responsible for the Newspaper Press Business Unit at MAN Roland in Augsburg, is convinced that the new drive system currently under development has marketing potential.

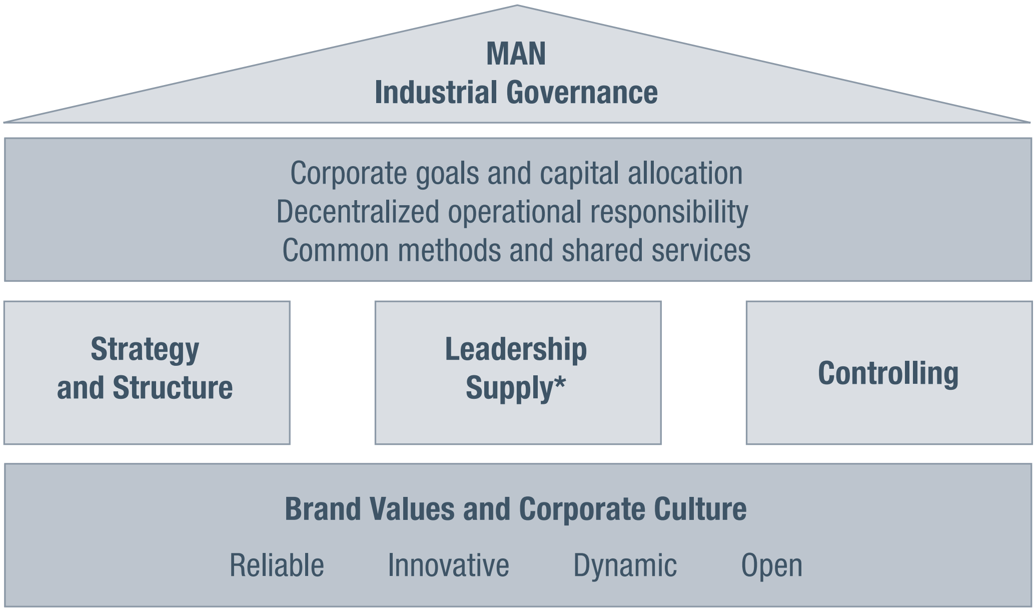
Even in future, an analysis of this kind cannot of course be any less thorough. The present market trends do however call for decisions to be taken as quickly as possible. This balancing act between quality and speed cannot be mastered unless the Corporate Center strengthens the individual responsibility of the Business Areas for their own activities, while itself concentrating on the overall policy. "At the end of 2005, MAN Roland's executive board was in Munich to obtain approval for its research and development budget for 2006," Mr. Hamm reports. "Just under ten pages. No details – that's industrial governance."

"Better, more agile, more efficient" The first step towards industrial governance began by redefining top management. Since the beginning of 2005, all five Business Areas have been represented on the Management Board by the heads of their executive boards, in addition to the Corporate Center functions (Chair, Finance and Controlling). The make-up of this body ensures that every strategy and every goal is based on a joint resolution and endorsed by the Business Areas. As a second step, the Management Board introduced industrial governance as a corporate management concept for the entire MAN Group. It integrates a steering process based on clear targets with the Group's industrial know-how.

As a counterpart to strategic "centralization", each Business Area is given more responsibility for operations within the scope of its defined targets. Commitment to these joint goals allows for more freedom in terms of their operational realization. The Business Areas can organize better and make quicker decisions. True to the principle of "do less better", all peripheral activities were discontinued in the course of 2005. The Board's management capacity is now focused on a limited number of Business Areas. All this, combined with the guiding principles aimed at improving both competitive strength and profitability, has led to a more positive assessment of the Group on the part of investment analysts. The share price has climbed significantly since the beginning of 2005. Our management style is co-operative, both encouraging and calling for entrepreneurial thinking and action on the part of employees. "Today, we only want to be informed about capital expenditure over two million euros," says Dr. Mathias Dähn, responsible for budgeting and controlling at MAN's Corporate Center in Munich. No more interfering with what is to be purchased, no crossing off machinery, "as long as the target is reached."

"Industrial governance is the MAN Group's corporate management concept."

Dr. Helmut Naber is responsible for knowledge transfer and the application of common methods throughout the Group. "As a result of industrial governance, the Group is managed with more agility and more efficiency," he emphatically maintains. "With a tightly-knit corporate management concentrating on key issues, one is obviously quicker and better." Which is why the reporting system has also been cut back and streamlined.



* Recruitment and development of management executives and management trainees.

The MAN House of Industrial Governance provides a schematic overview of the new management concept which is based on the four brand values. These support the three conceptual pillars of Strategy and Structure, Leadership Supply and Controlling. The roof houses the key principles of industrial governance, such as common goals and methods, as well as shared services, namely services provided in several Business Areas which are now to be bundled together.

As the controller, Mr. Dähn, explains, "Today, those working at the Corporate Center are mainly involved with the question of which strategic and profit-oriented targets are right for the Business Areas, taking into consideration their best competitors, and whether the measures envisaged by each area present a suitable means of reaching these targets. Once the targets and related measures have been defined, the question of whether the goals will be reached is collectively posed together with the Business Areas, thereby ensuring the binding nature of the controlling process." The Corporate Center's Controlling Department regularly inquires how things are progressing and whether the target can be reached within the intended time. The controlling process does not control, but steers.

Anton Hamm and his colleagues have meanwhile long been working on a project that was plausibly presented to the Corporate Center on a few pages, without the detail previously required, namely the development of a new drive system for printing presses. Up until now, thirty different driving motors have been installed. "The costs over the entire life of a printing press are high and we have to utilize every possibility of reducing them." Now the aim is to have no more than three or four different types of drives for varying sizes of printing presses, since standardization of this kind would save money. "A driving mechanism is more than just a motor," explains Mr. Hamm. "A great deal of control technology and electronics are needed to regulate a printing press with the highest precision and this involves mechanical engineers, printing technicians and electricians – but the Corporate Center is no longer interested in details of this kind."

Fewer details, more individual responsibility. MAN Group members are responsible for their own projects, while the Corporate Center focuses on steering the Business Areas.

Shared services – first step MAN IT Services

One module of the new management concept are so-called shared services. These are created by bundling services previously offered independently by every subsidiary. In the summer of 2005, MAN IT Services GmbH, MIT for short, was formed. MIT does not work for third parties. Its clients are MAN's Business Areas, which are also partners in the company. The official launch was in January 2006, although the transition will be taking place step-by-step to avoid disrupting ongoing IT operations. Dr. Wolfgang Brunn, Spokesman for the Board of Directors, gave an interview describing the shared services concept.

The new industrial governance management concept also includes shared services. What does this mean?

Wolfgang Brunn: Identical tasks are carried out in every Business Area, but until now, these have all been processed separately. This is not efficient. It's more intelligent for everyone to have these processed by one center, hence "shared service center". A start was made years ago, for example with our financing activities and the pension scheme. Now certain IT and personnel tasks are to be incorporated into this concept, with IT operations being bundled into MAN IT Services.

Would it not have been more sensible to assign the IT services to an outside company?

Wolfgang Brunn: The way our requirements are structured, completely outsourcing services is not the right direction for us. We have set up our own service center, don't work for third parties, but do buy in some services. We need IT staff who are familiar with our requirements and our processes. Qualified control of our cost efficiency can be achieved by comparing ratios with the IT-service market.

How many employees does MIT have?

Wolfgang Brunn: The MAN Group employs about 800 people worldwide in the IT sector. MIT will be taking over about 400 of these. The others will remain in the Business Areas and at MAN AG. MIT is a company with many local branches, all controlled from Munich. This decentralized structure is necessary, because when a PC crashes in Essen, an IT specialist based in Munich can't help.

If everyone is staying where they are, what is actually changing?

Wolfgang Brunn: In the course of time, we'll be standardizing and optimizing IT processes and structures at MIT and this should lead to specific cost savings of at least 15%. Based on a service output of around €130 million, this is still equivalent to €20 million.

Will there also be job cuts?

Wolfgang Brunn: If you mean redundancies, then no, because the demand for IT services is constantly increasing. We intend to extend our range of activities with the same number of personnel, which means being more efficient and boosting performance.

Confidence in the brand

Four values form the heart of the MAN brand

Working at MAN is based on key values – reliable and innovative, dynamic and open.

Reliable, innovative, dynamic, open A light and inviting atmosphere greets visitors to MAN Nutzfahrzeuge's marketing department in Munich. Glass walls and doors, cupboards and plants low enough to allow you to see and talk to colleagues at adjacent desks – and even to the department heads who, since moving here a few months ago, no longer occupy enclosed offices. Now they also sit behind glass, mostly with open doors. The new office layout, which is scheduled to be introduced in other areas too, provides for shorter distances and more communication. The open-plan design is also indicative of the new management culture which focuses on clearly-defined brand values.

Reliable and innovative, dynamic and open – these are the qualities transporting the MAN Group into the future. "These four words describe our corporate values and characterize MAN as a brand – and they form the basis of our industrial governance management system," stresses Håkan Samuelsson, Executive Board Chairman of the MAN AG. MAN is gaining added profile with its industrial governance. The fact that all of MAN's five core areas are working harder than ever before to achieve a corporate identity is evident from the optical brand presentation. After almost 250 years of company history, the era of diverse logos was brought to an end in 2004 when the Group introduced a standardized corporate logo, at the same time enhancing its optical impact. Since then, the familiar MAN logo with its arc appears in silver with a 3-D effect.

Its high-quality aura reflects the fact that MAN is a supplier of high-quality goods. As a result of systematic management of the corporate brand, customers, shareholders and the general public will in future associate clear expectations and images with the MAN name. Almost all MAN products meanwhile bear the standard logo, with the exception of trucks and buses displaying a logo on the radiator grill – either MAN with the Büssing lion and without the arc, or the NEOPLAN logo.

“Openness is the opposite of a culture based on fear,” says Håkan Samuelsson commenting on one of the brand values. This also includes not ignoring difficulties. “It is impossible to avoid mistakes in a dynamic organization, but we should at least learn from them.” As part of an open corporate culture, the head of the Group recommends that his senior managers should not carry out their duties solely from behind their desks. “Managers shouldn’t just sit in their offices and deal with paper, but talk to their staff, motivate them and lead them.”

The people behind the brand are what matter if its values are to be brought to life. It is often no longer enough for a customer to receive a reliable truck or a printing press with innovative technology. They also expect all-embracing solutions, including even a financing structure. And they expect the supplier to have people who respond openly and dynamically to their needs. The culture prevailing inside a company has a direct impact on the outside world.

“You can feel the change” However, brand values cannot be instituted overnight. “The staff can’t live up to these values until they have taken them completely to heart,” explained Brand Manager Göran-Carl Tamm from MAN Nutzfahrzeuge, where the brand values were first developed. “It’s a process that requires time and multipliers.” The process of anchoring the brand values in the workforce is most advanced in the MAN Group’s largest Business Area. So-called “brand champions” organize workshops to help assembly-line workers, office staff and management executives to understand the new values, giving them tips for all occasions – from the right way to present themselves on the phone to meetings with personnel. About 80% of MAN Nutzfahrzeuge’s European employees have meanwhile attended these three-hour workshops, while in other MAN companies, the brand values are also being discussed and increasingly put into practice. The changing values and culture are also an ongoing theme in management trainee programs, as is the implementation of industrial governance.

The changes at MAN Nutzfahrzeuge can be felt in many ways. “People are already working differently in our factories and offices,” confirms Mr. Tamm. An open flow of information and communication among the different levels of authority is also called for by the employees and is being implemented more and more. The company’s presentation in the marketplace also reflects this change. Its buildings boast the new standard logo, the branches are lighter and more modern, exhibition stands inviting and open. “If we really live our values, we’ll create an entirely new performance culture,” predicts Håkan Samuelsson, full of conviction.

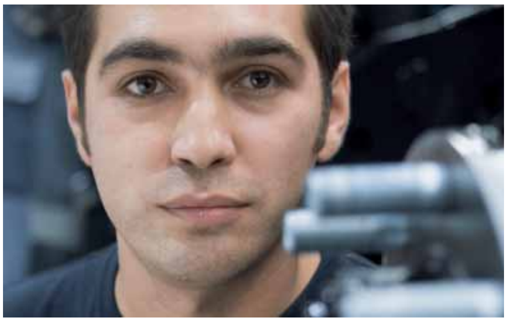
A strong brand acts as a value driver.

reliable – we live up to expectations and keep our word.
innovative – we create innovative solutions based on fresh thinking.
dynamic – we recognize potential and are solution-orientated.
open – we work together openly and exchange new ideas and information.

"Think what you could do better."

By means of internal communication, the four brand values – reliable, innovative, dynamic and open – are being transported into production shops/plants and offices throughout the MAN Group. Many of the staff at MAN Nutzfahrzeuge have already taken them to heart.

Rita Häuserer, 31, Logistics Department, supplies parts to the assembly lines.
"High time that we talked about openness. When do the next workshops start?"



Ali Özgün, 30, works as a "springer".
"The values are good. That's what I tell the others too. Talk to each other, be open, think what you could do better."

Samuele Torluccio, 27, works as a group specialist.
"I know the values by heart – they're on every poster and in the intranet. When I came eight years ago, it looked very different here in the works. Processes are much more efficient today, the distances are shorter, because we're constantly thinking of how we can improve things. Every two months, we hold workshops and good ideas are realized straight away."

Rene Feruga, 43, manages the process planning for 600 employees.
"For me, the most important value is reliability. The personnel requirements for the entire production process are based on the data I put together, so it has to be absolutely reliable. Otherwise we wouldn't operate economically. Or people would be overworked."

The sign of the times

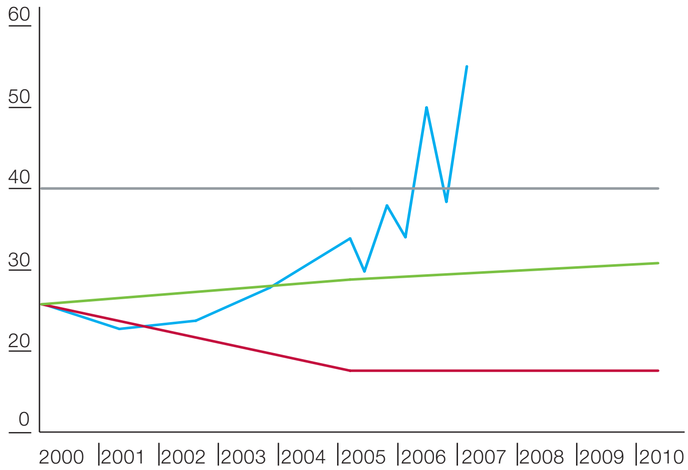
Gas & biomass to liquids – new opportunities for MAN products

MAN TURBO has delivered key components for the world's largest GTL plant to date.

Treasure under the sea-bed Qatar, a small country on the Persian Gulf consisting mainly of desert, has great plans. His Excellency Abdullah in Hamed Al-Attiyah, the country's Minister of Energy, announced during a meeting in March 2004, which was attended by responsible representatives from MAN TURBO, that he intended to make his country the GTL capital of the world. Not an unrealistic vision for, after Russia and Iran, Qatar has the world's third-largest reserves of natural gas. Measuring 380,000 billion cubic feet under the sea-bed, the North Gas Field is the largest natural gas field in the world. It was however not until oil reserves began to dwindle and the prices soar that this wealth took on a new dimension. Thanks to these negative parameters, a technology known as gas to liquids, or GTL, awoke from a long sleep, having first been developed in the nineteen-twenties by the German chemists, Franz Fischer and Hans Tropsch from Mülheim an der Ruhr. At that time, Fischer-Tropsch synthesis served to extract liquid fuel from coal with the aim of making greater use of domestic resources and being less dependent on imported energy.

Gas to liquids, the process used to convert natural gas today, is based on the same principle as coal hydrogenation (coal to liquids, CTL). "But as long as the oil price stood at twenty dollars a barrel, no-one was interested in the subject," admits Dr. Raimund Lösch-Schloms, Business Unit Manager at MAN TURBO in Oberhausen, who is responsible, among other things, for large-scale air-separation plants. Sixty dollars a barrel put a different view on things. Now it's worth looking for alternative sources of energy, even if they aren't exactly low-priced themselves. Furthermore, this method also facilitates access to gas reserves that were previously considered uneconomic. The finiteness of natural gas as a source of fossil energy can now be considerably deferred, thanks to GTL.

Development in the price of crude oil (Brent) in US$/barrel



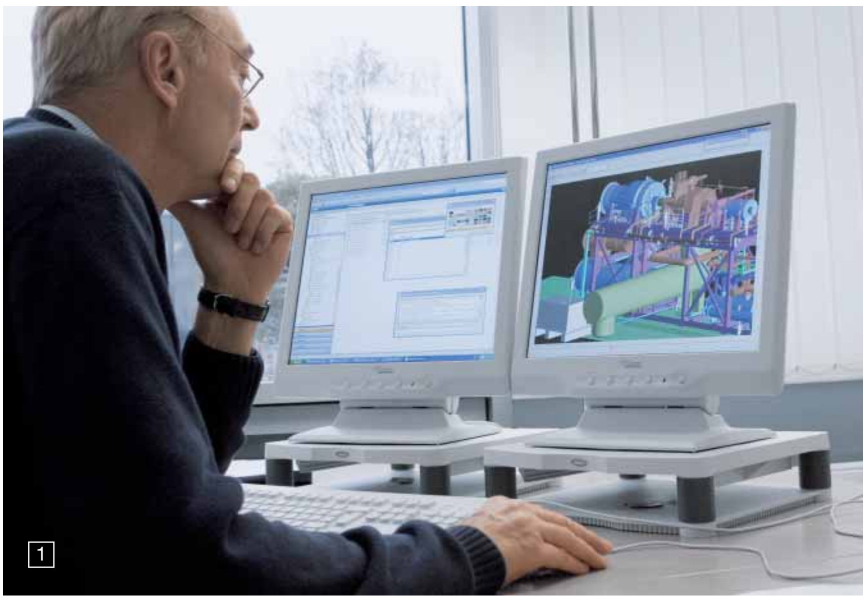
Cost-comparison limit for synthetic fuels
Actual development (January 2000 – April 2005)
Forecast 2001 (high)
Forecast 2001 (low)

Source: IEA, World Energy Outlook 2001

The actual trend in oil prices has exceeded all forecasts. With oil prices at more than 40 dollars per barrel, the use of alternative fuels has finally become economically viable.

These aspects also open up new markets with future growth potential for the MAN Group. “Both from the technological and strategic point of view, our companies are excellently equipped to meet this challenge,” stresses Florian Hofbauer, Head of Strategy and Structure at MAN AG. “We can quote comprehensive reference projects in the fields of compressor and turbine construction, as well as reactor and plant engineering – all over the world.” A reputation that has paved the way to Qatar for MAN TURBO. In the port of Ras Laffan, the world’s largest gas-to-liquid plant to date is to be commissioned in the course of 2006. This will convert natural gas into synthetic fuel at a rate of 34,000 barrels per day. The 3,500 tons of oxygen required each day will be supplied by air-separation plants. Based on a highly-complex technical process, equally high-tech compressors break down air into its different elements and make these available to the customer for further use.

The two machine trains, each consisting of an axial compressor, a steam turbine and a centrifugal compressor are the largest modules currently in operation anywhere in the world. 24 meters long, 12 meters high, 8 meters wide and weighing a good 500 tons – never before had a package like the “RASRA” project left Oberhausen, complete with compressor control systems and the relevant infrastructure, including gear transmissions, couplings, pipelines and oil-supply facilities mounted on a steel foundation. Before this colossus set off on its journey, it had to undergo detailed trials at home at the new assembly and testing center for large sets of equipment. This possibility of ensuring in advance that the module was fully operational was one of the key factors



1 *1 GTL plant in Qatar – Reiner Klisch designed the steel scaffolding for the complete module.*

2 *Accurate construction always involves precision work, even if the Qatar module ended up weighing 550 tons.*

MAN TURBO's air-separation plants form an indispensable part of the GTL process.

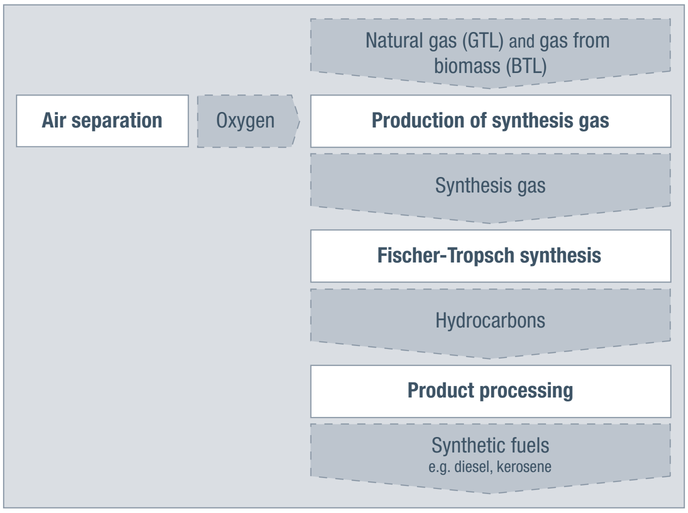
influencing the decision to award the contract to MAN TURBO. "The oil majors attach great importance to secured supplies. They demand sound and proven competence and take no risks," says Dr. Lösch-Schloms. "So in RASRA's case, we also developed tried and tested components even further to meet the customer's needs, going to the limit of what is safely justifiable in technological terms at the present time."

Customized solutions For Dr. Josef Dachs, Managing Director of MAN DWE, process security is also the decisive factor in striving to achieve lasting success. In the case of this company, the conversion of gas or biomass to liquid fuel is also opening up additional applications for its fixed-bed tubular reactors, high-tech monsters each weighing up to 1,000 tons. Along with the air-separation trains, these reactors form the core of every GTL plant. "We have fifty years' experience in reactor building and developing special solutions for customers is our strong point," explains Dr. Dachs. A key role is played by the company's own research laboratory, which includes a pilot plant where processes can be tested under real conditions and adapted for use in large-scale plants without any intermediary steps. "The customer is on the spot, gaining confidence in our technology from the development and specifications stage to final construction and delivery. This is our USP compared with the competition." Doubtlessly a criterion for ordering several reactors for a GTL project due to become operational in 2009. Sixty to seventy plants for converting natural gas into high-grade synthetic fuel are currently being planned worldwide. For Dr. Dachs and his colleagues at MAN TURBO, this is just the tip of the iceberg.

"We have fifty years' experience in reactor building."

The key components built by this company and the tailor-made machine trains can also be used for biomass-to-liquids projects, an application for which experts are predicting a magnificent future. Like the synfuel produced using GTL, fuels obtained from biomass, so-called sunfuels, are also free from sulphur. An additional advantage of these fuels "made by the sun" is that, being CO_2-neutral, they are clean-burning and therefore make a significant contribution to climatic protection. It is not without good reason that, according to a directive issued by the European Union, the share of biofuel should amount to 20% of total fuel consumption by 2020. A figure that Wolfgang Marschewski, Head of the Purchasing and Shipping department at MAN Ferrostaal, considers to be by all means realistic. As he explains, "Even the surplus wood left to rot in our forests could, converted to sunfuel, replace up to 20% of the fossil diesel." This Essen-based MAN company has not only acquired a good reputation as a global ▸

Environmentally-benign GTL fuels are sulphur-free.



GTL stands for gas to liquids. Using this process, a synthetic liquid fuel is created from the natural gas released during oil production, which is normally flared off. This fuel, which emits no sulphur on burning, is transported with the aid of special tankers.

GTL technology originated during the nineteen-twenties, being based on a process developed by the German chemists, Franz Fischer and Hans Tropsch in Mülheim an der Ruhr. Fischer-Tropsch synthesis was aimed at extracting liquid hydrocarbons. This method was subsequently improved and refined in South Africa, since the South Africans own large coal deposits and wanted to make themselves independent of energy suppliers during the apartheid regime. Even today, the main licensor for the GTL process, South African Coal Oil and Gas Corporation Limited, known as Sasol, is still located in South Africa. The process is considered to be economically viable on a large industrial scale from an oil price of around 40 dollars per barrel, this being significantly exceeded in 2005.

industrial service provider in the methanol sector, but its experience in the production of biodiesel and bioalcohol also make MAN Ferrostaal predestined to enter the field of building and contracting activities for GTL, BTL and CTL plants. Mr. Marschewski emphasizes that, “Increasing attention is being paid to observing and monitoring the BTL market. This is where we see our greatest potential for the future.” In future, such plants will be able to directly serve markets all over in the world with on-site facilities for extracting fuel from local, renewable resources.

This fuel can be used to drive every commercially-available diesel engine, without any modifications. There is already a particularly high grade of diesel fuel that contains up to 5% synfuel. The somewhat higher price is offset by excellent combustion properties, no sulphur emission and higher output. And another advantage is that GTL and BTL products can be sold via the same distribution network at no extra cost.

The high oil prices are therefore making a major contribution to enhanced environmental protection. For instance in Nigeria, where the natural gas released while lifting oil will no longer be flared off from 2007 onwards, but converted. Liquid gold instead of black smoke – once again using well-established MAN TURBO technology. For the same customer has ordered a complex for a GTL plant to be built in the African town of Escravos that is almost identical to the one ordered by RASRA for Qatar. Tenders are also currently being invited for two even larger projects, again in the Gulf state of Qatar, and MAN TURBO stands a good chance of being selected.

Transparent and objective

Selecting candidates for management positions is a strategic task

At MAN, employee assessment meetings are one of the key personnel management tools. This is where performance targets are agreed.

"A company in which a great deal is happening"

The new management concept is also impacting the human resources sector. So-called Leadership Supply, one of the pillars of industrial governance, entails recruiting and developing the necessary managerial staff. It is aimed at attracting top talents and promoting their potential.

New selection tools Dr. Michael Dubbert, Head of Human Resources at the Corporate Center, quickly recognized that MAN had some catching up to do when it came to providing managerial staff. It was clear to the 48-year-old personnel expert that the selection of candidates for management positions had to be made more transparent and more objective. "Before it was often a case of, 'I've worked together well with him for a long time, he's suited for the job.'" For the purposes of Leadership Supply, namely recruiting and developing executive staff, this experience-related principle was by no means adequate. "What has to be done is always less important than the question of who should be selected to fill this or that position." The basic theory behind this is that excellent people also perform excellently and are capable of moving off the beaten track.

MAN's new management concept, known as industrial governance, also forms a continuous thread running through all the structural changes, stimulating a new team culture. "Decisions may converge on the Management Board, but responsibility rests with each member of staff!"

"When it comes to achieving goals, responsibility rests with each member of staff."

Various tools have for instance been created in order to fill more management positions with internal instead of external candidates. One of these is the so-called job rotation system, allowing employees to switch jobs not only within a Business Area, but also on a Group-wide basis. MAN TURBO employees may move to MAN Ferrostaal, from Oberhausen to Essen, from Germany to Eastern Europe, Asia or Australia. This means that anyone wishing to go abroad does not have to leave the company. The Human Resources Department is also currently working on improving the Group-wide job exchange.

"I feel that my assumption has proved to be true and this is stimulating," says Michael Dubbert. "I've joined a company in which a great deal is happening and a great deal can be done." He realized that making a contribution would also offer an opportunity to improve co-operation between the Business Areas and the Corporate Center.

As far as filling management positions is concerned, there are set processes to be observed, whereby decision-making must be transparent and as objective as possible. Candidates are interviewed in the course of so-called management audits and evaluated according to their strengths and their development potential. This gives rise to a second opinion which is followed by selection of the most qualified member of staff.

Until now, a candidate's potential was generally assessed solely by his or her superior, but in future, more detailed succession screening will be integrated which will include bottom-up processing of all management positions.

Another tool promoting awareness of one's own development potential is the 360-degree feedback process. In this case, each individual conducts a self-assessment and is subsequently appraised by his or her colleagues and staff, and at least one superior. The end result is a self-profile and a profile complied by third parties, along with recommendations for appropriate development measures (cf. the following section "Judged from all sides"). This gives rise to a complete picture highlighting each employee's personal strengths and weaknesses. Based on this, special training programs can be implemented to rectify any deficits.

1 *Management development is an essential element of industrial governance.*
2 *Strengths and weaknesses are systematically analyzed.*

Give young people a chance!

Try something out, make a career, go abroad – without changing your employer

Melanie Neumann, 23, picks up her shoulder bag and joins the fray. Crowds of students are streaming into Cologne's exhibition hall where Europe's largest job congress for graduates is taking place. Melanie knows what she wants and, winding her way past a stand belonging to a utility company and another belonging to a mobile phone provider, reaches MAN, where she reads, "We are looking for applicants who show initiative, want to make a difference and are interested in progress." Behind these words, human resources specialists, technicians and controllers from all areas of the MAN Group are standing ready to advise graduates.

Melanie Neumann introduces herself to Gudrun Blankenhaus, Head of Personnel Development at MAN Ferrostaal. This industrial service provider belonging to the MAN Group maintains 186 offices worldwide.

The young lady has something to offer, having graduated in industrial engineering at Munich Polytechnic, "My studies focused on biotechnology, environmental management and international business," she reports. During her studies, she also completed periods of practical work in the Printing Systems and Diesel Engines Business Areas.

Gudrun Blankenhaus takes her time with this candidate. "You've successfully completed a really hard course of combined studies – very impressive! Now you're both an engineer and qualified in business administration, an ideal person for our customers."

The candidate is interested in the trainee scheme offered by MAN and would like to work abroad at a later stage. Gudrun Blankenhaus assures her that this will be possible, and even welcomed.

Personnel developer Gudrun Blankenhaus from MAN Ferrostaal (left) talking to the candidate Melanie Neumann (right).

At MAN, candidates for management positions are selected using a multi-stage process which includes management audits and candidate assessments by superiors and staff.

Judged from all sides

MAN B&W Diesel has conducted an audit of its managers in Copenhagen, Augsburg and several of its foreign offices, based on a pilot project. It was so successful that it is now to be applied throughout the entire MAN Group. For managers are not necessarily the best judges of their own strengths and weaknesses.

First Diesel Engines, then Group-wide The sea is never far away in Copenhagen. A fresh breeze can be felt everywhere, but especially in Christianshavn, a lively quarter intersected by canals, with tastefully-renovated old warehouses and factories. One of them was once occupied by Burmeister & Wain, the town's largest industrial employer. At the beginning of the twentieth century, the world's first maritime diesel engine was constructed here – under license from Rudolf Diesel, who invented "his" engine at MAN in 1897. The maiden voyage of the "Selandia" in 1912 marked the beginning of the marine-diesel era in Denmark. In 1980, M.A.N., as it was then called, took over Burmeister & Wain's diesel engine operations, changing the company name to MAN B&W Diesel.

From behind his desk, Klaus Engberg also has a permanent view of the water. He is Senior Vice President at MAN B&W Diesel, responsible for two-stroke licenses worldwide. On a map of the world, he has marked all licensees with a blue-headed pin. There are fifteen enterprises across the globe building two-stroke engines based on plans drawn up by MAN B&W Diesel design engineers. "Some of them are as big as three-story buildings, weigh 2,200 tons and have an output of up to 80,000 kW," Engberg explains. There are only three companies that manage to construct competitive engines of this size. "Even if we are number one in the world, holding more than 70% of the market, the competition remains fierce," he emphasizes. "To make sure our market position stays the way it is, we have to continually improve – not only our technology, but also ourselves."

This is why Keld V. Gryholm, Head of Human Resources in Copenhagen, developed an audit for senior executives. The review was commissioned by Håkan Samuelsson, MAN's Executive Board Chairman, as part of the Group's industrial governance drive. "How can we increase leadership potential – at an individual level and throughout the company? What are our present competencies and where are there deficits?" were the questions Mr. Gryholm asked. Based on an analysis of the answers, measures were then to be initiated for individual managers, as well as the entire company. Supported by individual development schemes, it should be possible to remedy any deficits identified within two years.

In addition to a three-hour personal interview with experts from the management consultants commissioned to carry out the audit, the first round also included multiple-choice questionnaires on behavioural preferences and conflict management. The key tool was a so-called 360-degree survey. An assessment form was sent not only to the relevant managers, but also to colleagues, direct superiors and to the staff.

"When the audit process was presented, I was sceptical at first," admits Klaus Engberg. "I wondered whether it wasn't a waste of time." However, the interviews reminded him of his own shortcomings. "You need to be aware of your weaknesses to actively do something about them." Along with a series of positive ratings, his assessment also included a few critical comments. "I sometimes run the risk of not taking details seriously enough," he confesses.

"You need to know your weaknesses to do something about them."

Klaus Engberg also stresses how important it was that the entire audit took place in an atmosphere of openness and fairness. "I tried to be extremely honest when assessing my colleagues – and a touch less hard than on myself." Many of the participants copied their personal assessments and passed them on to colleagues. "We won't remain at the top unless we're open and all make a joint effort to become even better," says Klaus Engberg.

"We're integrating our employees in every country"

Keld V. Gryholm, Head of Human Resources in Copenhagen answers two questions on this pilot project.

Aren't our managers the best judges of their own strengths and weaknesses?

Keld V. Gryholm: Not necessarily. We have the best engineers in the world, but many of them focus on technology and possibly not enough on relations with their staff. Besides, an objective basis can be obtained using the scientific methods offered by the audit in order to identify the most suitable candidates when replacing top executives.

Is this geared to both internal and external candidates?

Keld V. Gryholm: More than before to internal candidates. We're integrating the units and employees in different countries. Apart from Copenhagen, MAN B&W Diesel also has sites in Germany – with its head office in Augsburg and the service center in Hamburg – as well as in France, England and other countries. The audit's prime goal is to enhance our competitive strength.

MAN Shares

- MAN shares report above-average performance.
- Dividend increases by €0.30 to €1.35 per share.
- Ongoing international expansion of shareholder structure – regional focus on United States and United Kingdom.

MAN Shares

MAN ordinary shares – key figures

	2005	2004
Earnings per share in €	3.04	2.08
Cash dividend per share in €	1.35	1.05
Market capitalization (at Dec. 31)[1] in €m	6,604	4,145
Closing price in €	45.08	28.34
Highest price in €	45.24	32.23
Lowest price in €	29.00	24.33
Yield[2] in %	3.0	3.7
Gross yield[3] in %	63.9	20.8
Number in '000	140,974	140,974
DAX30 yield in %	27.1	7.3
DJ EURO STOXX in %	25.8	12.3

[1] Based on 140,974,350 ordinary shares and 6,065,650 preference shares
[2] Cash dividend based on closing price at Dec. 31
[3] Based on reinvestment of the cash dividend on the last trading day of the month in which the Annual General Meeting was held

Source: Bloomberg

Positive trading environment

In spite of oil prices reaching a record level, European stock markets were in strong form at the end of 2005, contrasting notably with the leading US indices. Although issues relating to Germany's political development remained open, the DAX30 nevertheless followed this trend. In December, the index clearly exceeded the 5,400-point mark, last reached in March 2002. Foreign investors in particular showed a growing interest in German shares.

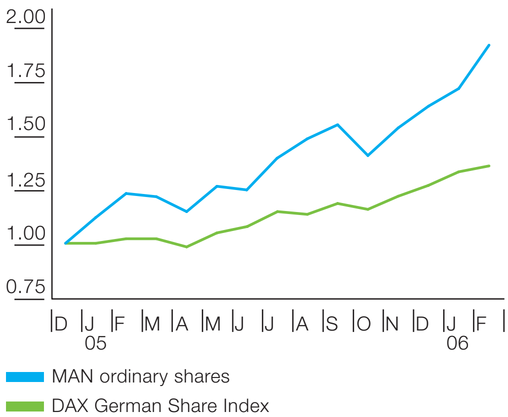
Initially, the stock market made a subdued start to 2005. It was not until May that a noticeable upswing in market sentiment was felt, due mainly to positive growth figures and forecasts, coupled with impressive reporting from major European companies. This change of mood triggered off a reaction on the stock markets. Apart from a temporary dip in October caused by speculation on tightening monetary policy in response to rising inflation rates in Europe and the US, the clear upward trend continued until year-end. Not even the base rate increase announced by the European Central Bank on December 1, 2005, the first for five years, was able to daunt this positive performance.

Above-average share performance

2005 was a particularly pleasing year for our shareholders. As in the previous year, the ordinary shares performed considerably better than the DAX30 reference index. The first stimulus came as early as January following successful placement of the MAN shares previously held by Allianz, Münchener Rück and Commerzbank via Regina Verwaltungsgesellschaft mbH.

MAN ordinary shares vs. DAX30 Jan. 2005 to Feb. 2006

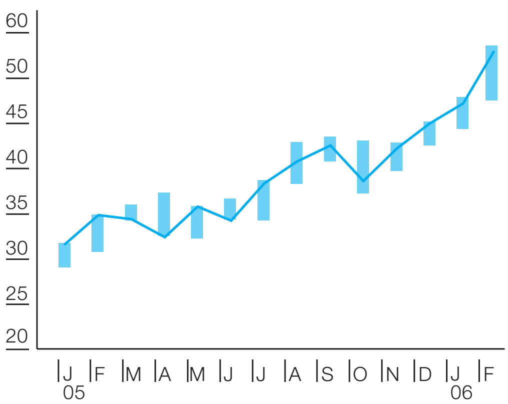
December 31, 2004 = 1.00



Source: Bloomberg

Our impressive earnings performance, the management's clear commitment to the newly-defined return targets and the systematic sale of activities not belonging to the Group's core business boosted share prices even further in the course of the year.

MAN shares – highs, lows and closing prices (in €)



Source: Bloomberg

At the same time, our shares also benefited from the generally positive trading environment prevailing since May.

Based on a starting price of €28.34, MAN ordinary shares gained €16.74 over the period January to December 2005 to reach €45.08 on December 31, 2005. This represented a strong overall rise of 59.1%. Over the same period, the DAX30 rose by 27.1% and the Dow Jones EURO STOXX by 25.8%.

MAN shares attractive in the long term

In recent years, investors focusing on long-term growth have been able to benefit from the above-average performance of MAN shares.

Over the past ten years, MAN's ordinary shares have generated gross annual yields of 11.8%, appreciating faster than the DAX30 (+9.1%) and the Dow Jones EURO STOXX (+11.2%).

Performance[1] of MAN shares and key indices up to the end of 2005 (in % p.a.)

	1 year	3 years	5 years	8 years	10 years
MAN ordinary shares	63.9	55.6	14.0	10.3	11.8
DAX30	27.1	23.2	–3.4	3.1	9.1
Dow Jones EURO STOXX	25.8	19.5	–1.5	6.5	11.2

[1] Development of share index prices; development of MAN ordinary share prices including cash dividend
Source: Bloomberg

1 *MAN shares rose by 59.1% in 2005.*
2 *The commitment of our employees made a key contribution to MAN's success.*

Improvement in Dax30 rating

Raising the free-floating MAN shares to 100% had a positive impact on both the liquidity of the shares and the market capitalization of MAN AG.

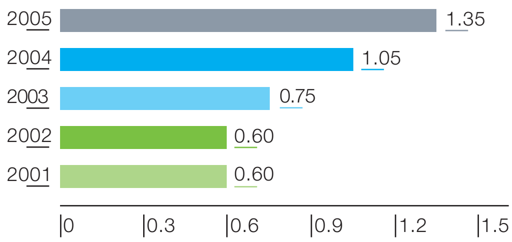
In line with share performance, market capitalization increased from €4.1 billion to €6.6 billion in 2005. According to the indexing system applied by the German Stock Exchange, which is based solely on a company's free-floating shares, MAN ordinary shares ranked twenty-first at December 31, 2005 (2004: thirty-first).

The total number of ordinary shares traded on the stock exchange reached 310 million in 2005, which was significantly higher than the previous year's figure of 219 million. Based on stock market trading, MAN ordinary shares reached twenty-fourth place (€11,154.71 million) compared with twenty-eighth (€6,156.08 million) in 2004.

Dividend increase

As part of our flexible dividend policy, shareholders receive an appropriate share of the earnings generated by the company. For the 2005 financial year, the Executive and Supervisory Boards will therefore be proposing a dividend increase of €0.30 to €1.35 at this year's Annual General Meeting. Based on the closing price of €45.08 noted by the ordinary shares on December 31, 2005, this represents a yield of 3%.

MAN dividend per share (in €)



Sustainable corporate management confirmed

In September 2005, MAN shares were listed in the Dow Jones STOXX Sustainability Index (DJSI STOXX) for the fourth time in succession. The DJSI STOXX is the leading European share index for sustainable corporate management.

The assessment includes both environmental management aspects and the promotion of and support for social and cultural activities, in addition to key economic and ecological ratios. Only companies holding a leading position in these areas on a European scale are listed in the DJSI STOXX. Inclusion in the index is reviewed annually by analysts from Sustainable Asset Management (SAM), an independent firm based in Zürich.

Enhanced capital-market communication
The rise in the number of free-floating shares has considerably increased the demands on MAN's communication with the capital market. As a result, investor relations activities were expanded even further last year, both in terms of staff numbers and content. The Group strategy newly launched as part of the industrial governance management concept underscores the significance for the MAN Group of our unqualified focus on value. This is reflected by the fact that since the beginning of 2006, direct responsibility for both investor relations and public relations has been taken over by the Executive Board Chairman.

Complying with the demands of the Corporate Governance Code, MAN attaches great importance to consistent, transparent and swift communication with all capital-market operators, as well interested members of the general public. Based on this principle, the annual and interim reports, as well as the corporate website at www.man-group.com/investors, offer a wide range of information and tools for enhanced evaluation of the company and its shares. In addition to the annual conference, conferences to review the quarterly financial results are also held for the press and analysts.

Last year, MAN was one of the first DAX30 companies to transmit its Annual General Meeting in full, not only the speech given by the Executive Board Chairman. For the first time, MAN also offered shareholders the possibility of voting via a virtual internet proxy and instruction system.

During individual and group discussions, as well as road shows and investor conferences in all major international financial centers, numerous capital-market operators were provided with comprehensive information on the company. The many questions on corporate strategy, the financial situation and assessment of the market reflected the marked interest in the MAN Group throughout the year.

The highlight of investor relations activities in 2005 was our Capital Market Day, which was held for the first time. Some fifty international financial analysts took part in the events held in Munich and Augsburg in April 2005. The aim of Capital Market Day is to provide attendants with a deeper insight into the strategic policy pursued by the MAN Group and its operating units, in addition to the traditional annual analysts' conference.

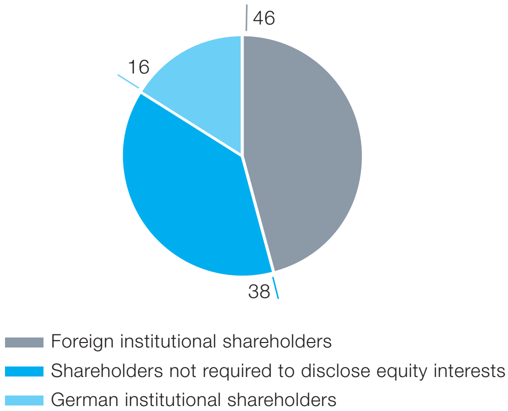
There is an international demand for MAN shares.

Expanding international shareholder structure

During the last financial year, MAN AG's shareholder structure showed marked international expansion. Based on a shareholder identification process, it was possible to determine the holders of 62% of the ordinary shares. This showed that, compared with 2004, the percentage of the total share capital held by foreign institutional investors rose from 37% to 46%.

The regional focus of MAN AG's shareholder structure lies in the United States and the United Kingdom, while Germany, which was still the strongest single region in 2004, has meanwhile dropped to third place. According to an announcement issued on July 19, 2005, the largest single shareholder in MAN AG is AXA S.A. in Paris, which indirectly holds 10.09% of the voting capital.

MAN shareholders at closing date 2005 (in %)



Source: D. F. King & Co., Thomson Financial

Basic information

	Shares		Bond
	Ordinary shares	Preference shares	MAN Financial Services plc
ISIN	DE0005937007	DE0005937031	XSO181879650
WPK number	593700	593703	A0AART
Reuters abbreviation	MANG.F	MANG_p.F	0#DE018187965=
Bloomberg abbreviation	MAN GY	MAN3 GY	MANAG

Corporate Governance

- Transparency and value added are key elements of our industrial governance management concept.
- MAN complies with all recommendations of the German Corporate Governance Code with one exception.
- Active involvement in the ongoing discussion on corporate governance.

Corporate Governance at MAN[1)]

By corporate governance, we understand the responsible and transparent management and control of our company. This forms a basis for effective interaction with our stakeholders. Corporate governance is not determined by adherence to formal rules and regulations, but above all by corporate management focused on long-term objectives and value creation. Transparency and value added are therefore also key elements of our management concept of industrial governance.

The MAN Group is committed to the stakeholder concept, meaning that in addition to the interests of our shareholders, adequate consideration is also given to the interests of our customers, employees, suppliers, lenders and other groups having an interest in the company. Our responsibilities within the company, as well as to our stakeholders and the environment, are firmly anchored in our Guiding Principles, our Code of Conduct and in the Memorandum and Articles of Association.

As a listed enterprise having its headquarters in Germany, the corporate governance parameters applicable to MAN are determined by the prevailing legislation and the German Corporate Governance Code (hereinafter "Code").

The Code aims to make the features peculiar to German corporate governance easy to understand, especially for foreign investors. The basic concept of the Code is that its application is voluntary. The only statutory obligation accrues from the "comply or explain" principle, according to which the Executive Board and the Supervisory Board must issue an annual declaration of compliance pursuant to Sec. 161 Companies Act stating whether all the recommendations contained in the Code have been observed (complied with). If this is not the case, reasons must be given for any deviations (explained).

The seven sections of the Code currently contain eighty-two binding recommendations, as well as nineteen further voluntary suggestions. MAN complies with all the recommendations, with one exception, as well as with the suggestions provided in the Code, apart from some minor exceptions.

The most recent declaration of compliance issued by the Executive Board and the Supervisory Board dates from December 22, 2005 and relates to the amended version of the Code published on June 2, 2005. The wording is included in the notes to the consolidated financial statements on page 147 and can be viewed on our website at www.man-group.com/corp-gov. The Executive and Supervisory Boards of our listed subsidiary RENK Aktiengesellschaft in Augsburg have also issued a declaration of compliance. This has been published in the RENK Aktiengesellschaft Annual Report and on the company's own website at www.renk.biz.

In the interests of all stakeholders, the MAN Group considers itself under a permanent obligation to review its performance and control systems and adjust these as required. In this connection we are actively monitoring the current discussion on corporate governance.

Detailed comments on some of the Code's important recommendations and suggestions follow below, basically in the same order as they appear in the Code.

[1)] Serving also as the "Corporate Governance Report" pursuant to Clause 3.10 of the German Corporate Governance Code as amended on June 2, 2005

Promotion of shareholders' rights

We regard integrity and transparency towards all shareholders as a cornerstone of the value-driven policy implemented under our industrial governance management concept. Due to the increasing international expansion of our shareholder structure, the specific characteristics of the company and of German corporate governance must also be understandable abroad on a comparable basis.

Each year, MAN AG provides shareholders with information on its business performance and the current financial and earnings situation via a press conference and at its annual general meeting, as well as publishing annual reports and quarterly results. MAN thereby complies with the provisions of insider law as amended by the Investor Protection Improvement Act (AnSVG).

Another key element ensuring equal distribution of shareholder information is our website offered in both German and English at www.man-group.com. In the "Investor Relations" section, substantial background information on the company, corporate governance and our shares is available to investors and interested members of the general public. A financial calendar can also be accessed via this page.

Annual general meeting

The annual general meeting serves shareholders as a platform for discussion with both the Executive Board and the Supervisory Board and also offers an opportunity to exercise their voting rights. The right to make a number of decisions on, for instance, the appropriation of retained earnings, discharge of the Executive and Supervisory Boards, election of Supervisory Board members and the auditor, is by law reserved for those shareholders voting at the annual general meeting. Amendments to the Memorandum and Articles of Association and any capital measures envisaged must also be approved at a general meeting.

1,995 shareholders attended the Annual General Meeting in 2005, which was 12% more than the previous year. This represented 34.7% of the voting capital, just under eleven percentage points less than in 2004. This reduction was attributed mainly to disinvestment on the part of the major shareholders Allianz, Münchener Rück and Commerzbank via their joint holding Regina Verwaltungsgesellschaft mbH at the beginning of 2005.

At the 2005 Annual General Meeting, we passed an anticipatory resolution in preparation for changes to the requirements for attending annual general meetings in the wake of the Corporate Integrity and Modernization of the Right to Challenge Executive Decisions Act (UMAG). The modifications necessary to bring our Memorandum and Articles of Association into line with current legislation were entered in the companies' register shortly after the UMAG came into force (November 1, 2005).

This means that, as of the next annual general meeting, shareholders will be entitled to take part upon providing evidence that they are entitled to exercise a voting right. This will include all those holding MAN shares in their portfolio at the beginning of the twenty-first day prior to the annual general meeting (record date). Shareholders must also register to attend before the minimum statutory period expires. Full attendance requirements are specified in detail in the relevant convening notice.

MAN distributes its annual report at each annual general meeting, and this is also forwarded to shareholders upon request. In addition, the annual report, quarterly results and the most recent agenda for the annual general meeting are published on our website. Each shareholder receives notice of the annual general meeting from its depository bank, together with the agenda. Notice of the annual general meeting is also published in the electronic issue of the German Federal Gazette and on our website.

The MAN Group is constantly striving to increase the level of attendance at its annual general meetings. In 2005, the entire meeting was transmitted via the internet for the first time and shareholders had the possibility to vote electronically.

In addition, MAN offers a facility for shareholders' voting rights to be represented by members of the company's staff. It is also possible to issue a credit institution or a shareholders' association with a proxy to exercise voting rights.

Co-operation between the Executive Board and the Supervisory Board

Apart from the annual general meeting, the most important bodies in the MAN Group are the Executive Board and the Supervisory Board. Co-operation and a flow of information between the Executive and Supervisory Boards are ensured at all times. All bodies observe the rules of due and proper corporate governance and endeavour to achieve sustained growth in the value of the enterprise to the benefit of its shareholders.

The following chart illustrates the basis for co-operation between MAN AG's governing bodies.

As at January 1, 2006

The excess payable by members of the MAN AG Executive Board under the directors & officers liability insurance (D&O) amounts to 100,000 euros and in the case of Supervisory Board members, is equivalent to one year's remuneration.

Executive Board

The Executive Board, which at present consists of five members, is the body responsible for managing MAN AG. It reports to the Supervisory Board on business performance, corporate planning and strategic policy. The allocation of business responsibilities and the mode of co-operation among members of the Executive Board are provided for in the Rules of Procedure.

A Management Board was set up at MAN AG at the beginning of 2005. This comprises the Executive Board members and two members of divisional executive boards. The MAN Group's five core areas of activity are represented on the Management Board, thereby implementing in an organizational form one of the basic pillars of our industrial governance management concept, namely central strategic management of the Business Areas. The Management Board makes decisions on strategy, as well as on portfolio and product management, and draws up clear performance targets for the Business Areas.

The following table shows the allocation of responsibilities on MAN AG's Management Board.

Members of the Executive Board and Management Board	
Dipl.-Ing. Håkan Samuelsson	Executive Board Chair
Karlheinz Hornung	Finance, Controlling
Prof. Dipl.-Ing. (FH) Gerd Finkbeiner	Printing Systems
Dr. Matthias Mitscherlich	Industrial Services
Dipl.-Ökonom Anton Weinmann	Commercial Vehicles
Members of the Management Board	
Jürgen Maus	Turbomachines
Dipl.-Ing. Fritz Pape	Diesel Engines

As at January 1, 2006

The structure of the remuneration system for members of the Executive Board is discussed by the Supervisory Board of MAN AG. The total remuneration received by all Executive Board members is made up of fixed and variable elements. Part of the variable remuneration accrues from a share option scheme introduced with retroactive effect as from the beginning of 2005, which includes a three-year retention period. The main features of the remuneration system are summarized in the notes to the consolidated financial statements on pages 144 to 145 and on our website.

The recommendation that the remuneration paid to each individual member of the Executive Board (subclause 4.2.4 of the Code) should be disclosed is complied with insofar as the remuneration received by the Executive Board Chairman and the average salary of all other Executive Board members are stated. We are of the opinion that this provides shareholders with an adequate basis to evaluate the commensurability of the remuneration received by the Executive Board.

Supervisory Board

The MAN AG Supervisory Board supervises the Executive Board and advises it on management of the company's business. It appoints the members of the Executive Board. The work carried out by the Supervisory Board is governed by the Rules of Procedure.

The Board comprises ten shareholders' and ten employees' representatives. In view of the change in the shareholder structure at the beginning of 2005, all the shareholders' representatives resigned from office at the 2005 Annual General Meeting, allowing the shareholders to hold new elections. The next statutory re-elections for employees' representatives are due to take place in the spring of 2007 and for shareholders' representatives at the 2007 Annual General Meeting. Members of the Supervisory Board are elected on an individual basis.

At the present time, the composition of the Supervisory Board, which includes professionally qualified members who are independent of both the company and the Executive Board, forms the basis for effective execution of Supervisory Board activities. The Chairman of the Supervisory Board, Dr. Ekkehard Schulz, is not a former member of MAN AG's Executive Board, only one member of the Supervisory Board formerly belonging to the MAN AG Executive Board.

Appointments held by Supervisory Board members on the boards of other companies are listed on pages 154 to 156 of the notes to the consolidated financial statements. Supervisory Board members are called upon to avoid all conflicts of interest.

A major part of Supervisory Board's work is performed by the Standing Committee, the Executive Personnel Committee and the Audit Committee. Details of the Committees' activities are included in the Report of the Supervisory Board.

The Chairman of the Supervisory Board of MAN AG, Dr. Schulz, is also Chairman of the Executive Personnel Committee.

Upon replacing members of the Audit Committee in 2005, it was ensured that the chairman had specialized knowledge and experience in the application of accounting principles and internal control processes. It was possible to acquire an extremely experienced manager for this position in the person of Dr. Karl-Ludwig Kley, a member of the Executive Board of Deutsche Lufthansa AG and responsible for its finance department.

The remuneration due to Supervisory Board members, and in particular to the Chairman and the Deputy Chairman, is stipulated in MAN AG's Memorandum and Articles of Association. It is divided into a fixed and a variable element. An individual breakdown is included in the notes to the consolidated financial statements.

Dealings subject to reporting requirements

According to the wider provisions of Sec. 15 German Securities Trading Act (WpHG), which have been in force since October 30, 2004, and the recommendation under Clause 6.6 of the Code, persons carrying out management duties and individuals closely related to such persons must report the purchase or sale of MAN shares and of any related financial instruments to both the issuer and the Federal Financial Supervisory Authority (BaFin). This group of persons includes family members maintaining close relations with management staff, as well as legal entities and other institutions connected with such group of persons. All transactions reported are published on the company's website at www.man-group.com. During 2005, the following transaction was reported to MAN AG: Håkan Samuelsson, Executive Board Chairman of MAN AG, purchased 1,500 ordinary shares on April 4, 2005.

Accounting

MAN AG prepares its annual consolidated financial statements and its interim reports, which are published every quarter, in accordance with the prevailing German accounting standards, namely the International Financial Reporting Standards (IFRS). All deadlines for publication of the consolidated financial statements and the quarterly results were adhered to.

Annual audit

As mentioned in the Report of the Supervisory Board, the Audit Committee was commissioned to pass a proposal for the appointment of an auditor on behalf of the Supervisory Board. Based on a selection process conducted in 2005, a decision was made in favour of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Munich (KPMG), which led to a change of auditor. The Annual General Meeting complied with the proposed appointment of KPMG as auditor for the annual financial statements.

KPMG has confirmed that all requirements of the Code pertaining to the independence of the auditor will be observed. It has also been agreed with the auditor that the Chairman of the Audit Committee shall be immediately informed of any grounds for disqualification or partiality which may occur during the audit, unless these can be promptly remedied.

Report of the Supervisory Board

- Unqualified audit opinion on financial statements and management report.
- Company and consolidated financial statements approved.
- Changes in the Supervisory Board.
- Changes in the Executive Board.

Report of the Supervisory Board

*Dr.-Ing. Ekkehard D. Schulz,
Chairman of the Supervisory Board*

During the year under review, the Supervisory Board discharged on an ongoing basis the duties for which it is responsible both by law and pursuant to the company's Memorandum and Articles of Association, supervised management of the company and regularly advised the Executive Board. The Executive Board regularly provided comprehensive, up-to-date information on business performance and events of operational significance in the form of both written and personal reports. We also dealt with the aspects of risk management, corporate planning and the strategic progress of the MAN Group, including introduction of the new management concept, "Industrial Governance". Detailed reports were also submitted to the Supervisory Board regarding reorganization of the sheet-fed printing operations at MAN Roland Druckmaschinen AG, acquisition projects, the disposal of businesses and holdings not belonging to the Group's core activities and the construction of a new truck-assembly plant for MAN Nutzfahrzeuge in Poland. In addition to the Supervisory Board meetings, I also personally informed myself about significant aspects of ongoing business operations and strategic plans during regular talks with the Executive Board Chairman. Four ordinary meetings and one constituent meeting of the Supervisory Board took place during the 2005 financial year.

Changes in the shareholder structure led to changes in the Supervisory Board
MAN's long-standing major shareholder, Regina Verwaltungsgesellschaft, placed its shares on the market in January 2005. Following this radical shift in the company's shareholder structure, the shareholders' representatives on the Supervisory Board decided to resign from office at the end of the 2005 Annual General Meeting, allowing the shareholders to re-elect their representatives for the remainder of the current term of office. With the support of a "Selection Committee", the Supervisory Board drew up an appropriate election proposal, which was accepted at the Annual General Meeting on June 3, 2005. The board members Prof. Dr. rer. pol. Renate Köcher, Mr. Michael Behrendt, Dr. rer. nat. Hubertus von Grünberg, Prof. Dr.-Ing. Joachim Milberg, Dr.-Ing. Ekkehard D. Schulz and Dr. rer. nat. Hanns-Helge Stechl were re-elected. Dr.-Ing. Herbert Demel, Mr. Klaus Eberhardt, Dr. jur. Karl-Ludwig Kley and Dr.-Ing. E.h. Rudolf Rupprecht were newly elected to the Supervisory Board as shareholders' representatives. We should like to thank Dr. oec. Paul Achleitner, Dr. jur. Heiner Hasford, Mr. Andreas de Maizière and above all Dr. Eng. h.c. Volker Jung, who had chaired the Supervisory Board since May 2002, for their many years of successful commitment to the Supervisory Board and its committees. Immediately following the Annual General Meeting, the Supervisory Board elected myself as Chairman at a constituent meeting, and Professor Milberg as its Deputy Chairman. Dr. Kley succeeded Dr. Achleitner as Chairman of the Audit Committee. The present members of the Supervisory Board and its committees are listed on pages 154 to 157 of this Annual Report.

Another change in the Supervisory Board occurred mid-year, following the resignation of Mr. Ralf Simon as representative for the executive employees, who left to become Managing Director of Automotive Components Penzberg GmbH. We should like to thank Mr. Simon for his many years of service on the Supervisory Board. Since July 1, 2005, his seat on the Supervisory Board has been occupied by Mr. Reinhard Frech, who was elected to replace Mr. Simon.

German Corporate Governance Code

The Supervisory Board has established that the Company complied with the recommendations of the "Government Commission on the German Corporate Governance Code", in accordance with the compliance declaration issued in 2004. The Executive Board and the Supervisory Board issued their annual declaration of compliance in December 2005. This confirmed that during 2006, MAN Aktiengesellschaft would comply with the Code's recommendations, based on the amended version published on July 20, 2005, again with one exception, namely that details of the compensation paid to individual members of the Executive Board are reported in the Notes to the Consolidated Financial Statements only to the extent that the remuneration paid to the Executive Board Chairman and the average salary of all other Executive Board members are stated.

Selection of the auditor and audit of the company and group financial statements for 2005

The Supervisory Board transferred responsibility for selecting the auditor for the 2005 financial year, as well as for conducting the relevant independence review, to the Audit Committee, at the same time authorizing and commissioning the Committee to prepare a proposal for the appointment of an auditor to be submitted at the Annual General Meeting. Based on a competitive selection process, a decision was made in favour of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft in Munich ("KPMG"). KPMG was duly appointed auditor for the 2005 financial year at the Annual General Meeting. The Supervisory Board expressly commissioned KPMG to audit the 2005 financial statements.

KPMG has audited the financial statements of MAN Aktiengesellschaft and the consolidated financial statements for the year ended December 31, 2005, as well as the management report, which includes both company and group operations, each of which has been issued with an unqualified audit opinion. 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, either as a result of discussion and examination of the financial statements by the Audit Committee or based on 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 approved, along with the consolidated financial statements. We have considered and agreed to the appropriation of retained earnings as proposed by the Executive Board.

Supervisory Board committees – key activities during 2005

During the year under review, the Audit Committee held a total of four meetings. It considered, among other things, the 2004 financial statements for the company and the group and discussed the audit reports with the auditors.

On behalf of the Supervisory Board, the Audit Committee also reviewed the proposal put forward at the Annual General Meeting regarding the appropriation of retained earnings for 2004 on the part of MAN Aktiengesellschaft and conducted the proceedings for selecting the auditor for 2005. Furthermore, the Audit Committee was extensively involved in ongoing development of the controlling system and risk management, as well as commissioning the auditors to review the 2005 financial statements and assigning priorities for their audit.

The Personnel Committee met four times during the year under review to deal mainly with the appointment of a Senior Labour Relations Manager, the introduction of a share scheme for members of executive bodies, reorganization of the Executive Board following the retirement of Dr. Graf von Ballestrem and Dr. Brunn, as well as contractual agreements with members of the Executive Board.

The Standing Committee met twice in the course of 2005 to deal mainly with disinvestments aimed at streamlining the MAN portfolio and with acquisition projects.

It was not necessary to convene any meetings of the Arbitration Committee pursuant to Sec. 27 para. 3 Co-Determination Act during 2005.

Changes in the Executive Board

At the end of 2005, Dr. Ferdinand Graf von Ballestrem and Dr. Wolfgang Brunn resigned from the Executive Board. Dr. Graf von Ballestrem had worked for the MAN Group since 1973, since January 1996 as Finance Director and member of the Executive Board of MAN Aktiengesellschaft. Dr. Brunn had been with the MAN Group since 1980, acting as Executive Board member responsible for technology as from January 1, 2001. Since March 16, 2005 he also held the office of Senior Labour Relations Manager. We should like to thank Dr. Graf von Ballestrem and Dr. Brunn for their valuable services to the company. Dr. Graf von Ballestrem will continue to serve the MAN Group as Chairman of the Advisory Board of MAN Finance International GmbH and Dr. Brunn as Managing Director of MAN GHH Immobilien GmbH, MAN Grundstücksgesellschaft mbH and MAN IT Services GmbH. Since January 1, 2006, MAN Aktiengesellschaft's Executive Board has comprised five members, with responsibility for investor relations now lying with the Executive Board Chairman, and the sectors of sales financing, monetary transactions and capital markets with the Executive Board member responsible for controlling. In accordance with a resolution passed by the Supervisory Board on December 7, 2005, the office of Senior Labour Relations Manager was assigned to Mr. Samuelsson as of January 1, 2006.

We should like to extend our thanks to all members of the executive boards and boards of directors, as well as to 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 interests of the company.

Munich, March 15, 2006
Chairman of the Supervisory Board

Dr.-Ing. Ekkehard D. Schulz

Group Management Report

- Operating profit: €765 million (up from €557 million)
- ROS: 5.2 percent (up from 4.0)
- ROCE: 19.1 percent (up from 13.0)
- Earnings per share (EpS): €3.04 (up from €2.08)
- Proposed cash dividend: €1.35 (up from €1.05)
- Cash flow from operating activities: €1,267 million (up from €946 million)

Contents of Group Management Report 2005[1)]

[1)] Combined management report on the MAN Group and MAN AG under the terms of Arts. 315, 289 German Commercial Code (“HGB”)

Economic environment

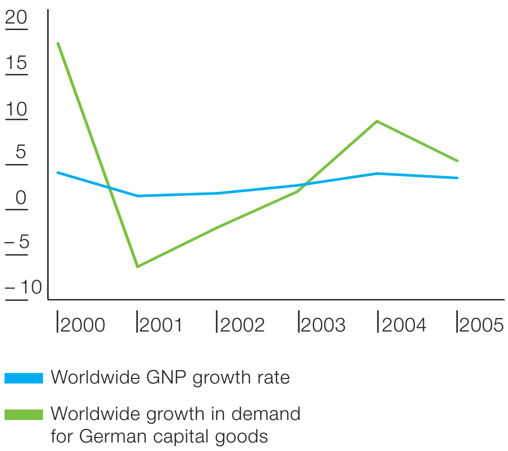
The global economy continued to advance in 2005 albeit as the year proceeded the steep rise in energy and commodity prices did sap some of the momentum. At 3.5 percent, economic growth was again above the average of many preceding years yet short of the year-earlier 4.0 percent. Most growth was again shown by North America, Central & Eastern Europe, Asia, and Latin America.

Economic expansion stayed tepid within Euroland whose gross domestic product rose a mere 1.4 percent in 2005. Strong global demand and a robust US dollar sparked export demand for capital goods. Domestic demand within this region again fell short of expectations.

Germany is still deriving its economic momentum from exports yet international demand spilled over into the domestic economy only to a limited extent, this advancing by a mere 0.9 percent. In contrast, the situation in the German capital goods industry was again highly encouraging, global demand for German capital equipment growing by a real 6.0 percent. Orders booked from abroad surged 9.0 percent. Domestic demand, however, failed to contribute any growth and slipped 1.0 percent versus 2004.

Throughout its business areas the MAN Group benefited from robust global demand for capital goods, especially diesel engines, trucks, and industrial plants.

Economic trend (%)



Changes in commercial vehicles sales with buyback obligation

The figures quoted in this management report on sales, earnings and net-asset position have allowed for a change in the figures quoted for commercial vehicles if sold subject to a buyback obligation. This change will facilitate comparison with our competitors. The 2004 data has been restated accordingly. For the reconciliation of the new accounting values, see Note (5) to the consolidated financial statements, page 116.

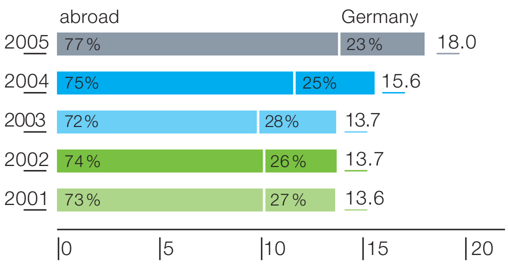
Business trend

Order intake at an all-time high
Despite the disposal of a number of investees and resultant shrinkage in business scope, the MAN Group posted its highest-ever order intake in 2005. At €18.0 billion, the year-earlier figure of €15.6 billion was topped by 15 percent. The Commercial Vehicles, Printing Systems, Diesel Engines and Turbomachines business areas all reported record order intakes in 2005.

An exceptionally large share of new business in the MAN Group was accounted for by megacontracts (€3.3 billion, up by 74 percent). Commercial Vehicles, Industrial Services and Printing Systems all booked very sizeable one-off orders. Meriting special mention is a contract awarded by the British Ministry of Defence (MoD) to MAN Commercial Vehicles for 5,165 trucks worth a total €1.4 billion for delivery between 2007 and 2013; a contract placed with MAN Ferrostaal from Oman for constructing a methanol plant worth €300 million; and a €300 million deal for web-fed printers for News International. Excluding these megacontracts, order influx from MAN's routine business rose 7 percent versus 2004.

All the MAN Group's manufacturing business areas (i.e., excluding Industrial Services and Financial Services) succeeded in sharply boosting order intake, most especially Commercial Vehicles (up 24 percent) thanks to a contract place by the British Ministry of Defence (MoD) (excluding this, order intake at Commercial Vehicles still up by 6 percent). Double-digit growth rates were also posted by Printing Systems (up 12 percent), Diesel Engines (up 18 percent) and Turbomachines (up 26 percent). The 12% drop at Industrial Services was due to the, as expected, decline in steel prices.

Order intake (€ billion)



Order intake by business area

€ million	2005	%	2004	%
Commercial Vehicles	9,434	52	7,589	49
Industrial Services	3,077	17	3,508	22
Printing Systems	2,109	12	1,885	12
Diesel Engines	2,203	12	1,872	12
Turbomachines	850	5	675	4
Others	753	4	593	4
Consolidation	(432)	(2)	(477)	(3)
MAN Group	**17,994**	**100**	**15,645**	**100**

Order intake by region

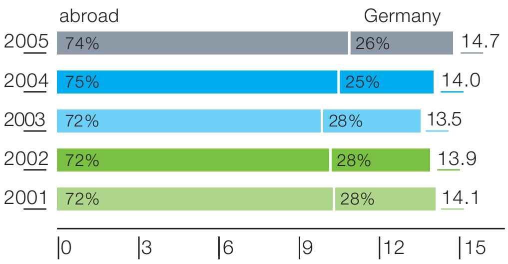
€ million	2005	%	2004	%
Germany	4,065	23	3,850	25
Other EU	6,940	38	5,394	34
Other Europe	1,443	8	1,117	7
Asia	2,724	15	2,123	13
Americas	2,135	12	2,290	15
Africa	558	3	585	4
Australia/Oceania	129	1	286	2
MAN Group	**17,994**	**100**	**15,645**	**100**

New orders booked in Germany rose 6 percent over the year-earlier volume. European countries outside of Germany accounted for a gain of 29 percent. A steep rise in order influx was shown in particular by Commercial Vehicles (including the megacontract placed by the MoD), Printing Systems (including the megacontract from News International), Diesel Engines, and Turbomachines. The still high-growth regions of Asia generated 28 percent more orders compared with 2004—mainly from Southeast Asia, the Near and Middle East. Order intake from the Americas dropped 7 percent where a rise by the manufacturing business areas contrasted with an expected shortfall by Industrial Services.

Added sales by the manufacturing business areas

The advance in new orders was reflected in sales rising to €14.7 billion, up 5 percent from 2004 (€14.0 billion). The sales increase by the manufacturing business areas was 9 percent, all areas contributing. The 12-percent reduction at Industrial Services was a direct consequence of delayed megacontract awards in project business.

Sales (€ billion)



Sales by business area

€ million	2005	%	2004	%
Commercial Vehicles	7,377	50	6,799	48
Industrial Services	2,789	19	3,185	23
Printing Systems	1,738	12	1,620	11
Diesel Engines	1,666	11	1,421	10
Turbomachines	694	5	659	5
Others	677	5	653	5
Consolidation	(270)	(2)	(299)	(2)
MAN Group	**14,671**	**100**	**14,038**	**100**

Sales by region

€ million	2005	%	2004	%
Germany	3,774	26	3,540	25
Other EU	4,921	34	4,780	34
Other Europe	1,197	8	1,136	8
Asia	1,894	13	1,770	13
Americas	2,079	14	2,022	14
Africa	623	4	657	5
Australia/Oceania	183	1	133	1
MAN Group	**14,671**	**100**	**14,038**	**100**

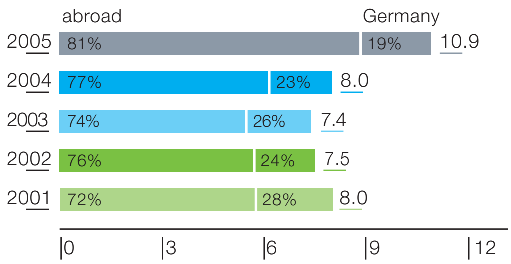
Sales in Germany rose 7 percent versus 2004, some two-thirds being accounted for by Commercial Vehicles which advanced 3 percent in Germany.

Elsewhere in Europe, our sales grew 3 percent to €6.1 billion. Sharp gains were posted by Commercial Vehicles (up 13 percent), Printing Systems (up 13 percent) and Diesel Engines (up 20 percent) whereas Industrial Services had a much weaker year. In line with order influx over recent years, Asian sales surged 7 percent, Diesel Engines, in particular, showing a vigorous growth of 18 percent in this part of the world. Indeed, for the manufacturing business areas of the Group, Asia is the second most important market after the EU.

Order backlog in excess of €10 billion

The surge of new business has raised the MAN Group's order backlog easily over the figure for 2004. As of December 31, 2005, it amounted to €10.9 billion, a leap of 37 percent over 2004 (€8.0 billion). In fact, all the business areas show a fatter order book than at the start of the year and in the busiest areas the gain is very much double digit—Printing Systems 39 percent, Diesel Engines 37, Turbomachines 32, while Commercial Vehicles, not least of all due to the MoD deal, doubled its order backlog (up 102 percent). In all, order books of this magnitude will help keep the manufacturing plants busy in 2006.

Order backlog at Dec. 31 (€ billion)



Earnings

Another surge in operating profit

Operating profit by business area

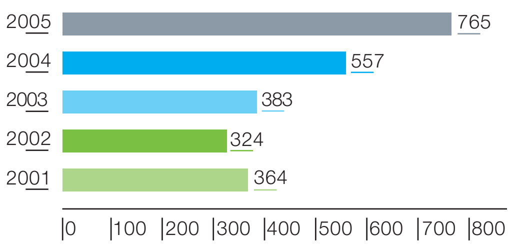
€ million	2005	2004
Commercial Vehicles	469	322
Industrial Services	90	72
Printing Systems	65	3
Diesel Engines	117	55
Turbomachines	43	36
Other	64	64
HQ	(63)	16
Consolidation	(20)	(11)
Operating profit	**765**	**557**

In fiscal 2005, the MAN Group substantially enhanced its earnings throughout its business areas, the Group's operating profit hiking up by €208 million or 37 percent to €765 million. A major contribution came from Commercial Vehicles and Diesel Engines—business areas that both benefited from the expanded business volume and implemented improvement programs, as well as Printing Systems whose Sheet-Fed unit negotiated a turnaround.

The operating profit of Commercial Vehicles climbed €147 million to €469 million, Diesel Engines' more than doubling to €117 million. Within Printing Systems, the sheet-fed machinery operations showed a black €6 million (up from a red €41 million), this business area as a whole achieving a €62 million surge to €65 million in 2005. The operating profits of Industrial Services and Turbomachines were upgraded by €18 million to €90 million and €7 million to €43 million, respectively. HQ costs and expenses added up to €63 million, the lower operating profit being due to the absence of the HQ allocation charged in previous years and the property disposal gains posted in 2004.

For details of the business and earnings trend of each business area, turn to page 72 onward of this management report.

Operating profit (€ million)



1 *The MAN Nutzfahrzeuge Group contributed €469 million to the total operating profit.*
2 *The tall order backlog ensures high production capacity utilization rates.*

Reconciliation of operating profit to net income

€ million	2005	2004
Operating profit	**765**	**557**
Net result from nonrecurring factors	(49)	–
Net interest result of Industrial Business	(78)	(115)
EBT	**638**	**442**
Income taxes	(181)	(122)
Net result of discontinued operations	15	(2)
Net income	**472**	**318**
Earnings per share (EpS) of continuing operations (€)	3.04	2.08
Dividend per share in € (2005 proposed)	1.35	1.05

The MAN Group's EBT mounted €196 million or 44 percent to €638 million, after accounting for the expenses of €49 million from the closedown of the sheet-fed machinery plant in Geisenheim and the Stuttgart NEOPLAN Bus GmbH operations. Being attributable to nonrecurring factors, these expenses are not reflected in operating profit. The higher net liquid assets of Industrial Business scaled back net interest expense from €115 million a year ago to €78 million in 2005.

The Group's tax expense rose from €122 million to €181 million, the tax load ratio ratcheting up from 27.6 to 28.4 percent. This ratio is composed of the various tax rates of German and foreign subsidiaries, the utilization of tax loss carryovers not capitalized in 2004, taxes of prior periods, as well as tax-exempt income.

In the year under review, MAN AG disposed of its stakes in Schwäbische Hüttenwerke, MAN Technologie, MAN WOLFFKRAN, and MAN Logistics. The divestees have during the year been accounted for as discontinued operations and are therefore included in neither the 2005 data nor the prior-year comparatives. The posttax gain of €15 million from their disposal is shown in a separate line outside operating profit, as is their 2004 posttax loss of €2 million.

The MAN Group's net income swelled to €472 million, a €154 million leap from the prior-year figure. Earnings per share from continuing operations were upped from €2.08 in 2004 by €0.96 or 46 percent to €3.04 in the year under review.

The Executive and Supervisory Boards will propose to the annual stockholders' meeting to distribute a €0.30 or 29 percent higher cash dividend of €1.35 per share.


3


4

3 *Processing casings for marine diesel engines.*
4 *High demand for new vessels had a positive impact on business with marine propulsion systems.*

Controlling system and VA management

Focal financial controlling parameters within the MAN Group are operating profit, return on sales, and return on capital employed (ROCE), all as defined in our glossary. These indicators are used to assess performance not only at MAN Group level but also at the level of each business area. The Group's and its business areas' performance targets are based on these parameters.

Operating profit

Prime parameter for assessing and controlling a business area's profitability is the operating profit. For the Industrial Business areas (MAN Group excluding Financial Services), operating profit as a rule equals EBIT. Exceptionally high losses and gains that originate from extraordinary events or sources outside ordinary business operations are eliminated restrictively on a case-by-case basis. In fiscal 2005, such adjustments were required for the expenses caused by the closedown of two plants. The operating profit of Financial Services corresponds to its EBT since in this case, net interest expense is tantamount to costs.

Return on sales

Return on sales (ROS)

%	2005	2004
Commercial Vehicles	6.4	4.7
Printing Systems	3.7	0.2
Diesel Engines	7.1	3.9
Turbomachines	6.2	5.5
Manufacturing business areas	**5.6**	**4.3**
Industrial Services	3.2	2.3
MAN Group	**5.2**	**4.0**

The ROS benchmark is obtained by dividing net sales into operating profit and has been set at 6.0 percent for the MAN Group and 6.5 for the manufacturing business areas (Commercial Vehicles 7 percent)[1], these targets having to be achieved on average within any one economic cycle. The 2005 ROS of 5.6 percent for the manufacturing business areas (up from 4.3) and of 5.2 percent for the MAN Group (up from 4.0) means that we have considerably narrowed the gap between actual and target performance.

[1] Redefined formula, see page 116

Inserting an axial-compressor rotor into its casing.

ROCE

ROCE		
€ million	**2005**	**2004**
Equity	3,278	2,965
Pension accruals	1,185	1,716
Financial liabilities	1,018	753
	5,481	**5,434**
Debt-funded volume of Financial Services	(1,359)	(902)
Discontinued operations	–	(204)
Total CE of the MAN Group at Dec. 31	4,122	4,328
Annual average CE of the MAN Group	4,010	4,287
Operating profit	**765**	**557**
ROCE in %	**19.1**	**13.0**

ROCE (return on capital employed) relates operating profit to the weighted annual average capital employed (CE).

For the MAN Group we determine CE from how capital employed is funded. CE breaks down into the MAN Group's equity, pension accruals and financial liabilities, less the debt-volume of Financial Services. For enhanced comparability, the 2004 data has been adjusted for the discontinued operations.

The capital employed by a business area is derived from the asset side. An Industrial Business area's CE comprises its entire assets other than financial and tax assets, less accruals, nonfinancial liabilities, pension accruals and tax liabilities. High-liquidity plant construction units also add part of their net liquid assets to CE.

The ROCE benchmark is 18 percent for the MAN Group and has for the first time in 2005 been attained and at 19.1 percent (up from 13.0) even excelled. Individual benchmarks are determined for each business area.

WACC

WACC	
%	**MAN Group**
Cost of equity	
risk-free interest rate	3.8
market premium	5.0
beta	1.0
posttax cost of equity	8.8
tax rate	35.0
pretax cost of equity	13.5
Pretax cost of debt	5.0
Equity portion (at fair value)	70.0
Debt portion	30.0
Pretax cost of capital (WACC)	**11.0**

The weighted average cost of capital (WACC) has been determined at a pretax 11.0 percent for the entire MAN Group. We maintain WACC as control parameter for ROCE and hence at this level over a longer period of time.

Value added

This financial indicator discloses whether the MAN Group and its business areas have earned their cost of capital and have added value beyond. Value added (VA) equals the difference between ROCE and WACC, multiplied by CE. In this formula, ROCE is used for Industrial Business while for Financial Services, it is ROE (return on equity). The value added by Financial Services is derived from the difference between ROE and its cost of capital of 13.5 percent, times its average equity.

The 2004 definition of CE has been modified regarding the additional allocation of intragroup funds and cash from plant construction business. The 2004 comparatives have been restated accordingly.

ROCE and VA by business area 2005

€ million or %	Operating profit	Average CE	ROCE in %	WACC in %	Spread in % points	Value added
Commercial Vehicles	469	2,622	17.9	11.0	6.9	181
Industrial Services	90	236	38.1	11.0	27.1	64
Printing Systems	65	278	23.2	11.0	12.2	34
Diesel Engines	117	451	26.1	11.0	15.1	68
Turbomachines	43	184	23.3	11.0	12.3	23
Others	(47)	98	–	–	–	(58)
Total Industrial Business	**737**	**3,869**	**19.1**	**11.0**	**8.1**	**312**
Financial Services[1]	28	141	20.0	13.5	6.5	9
MAN Group	**765**	**4,010**	**19.1**	**–**	**–**	**321**

ROCE and VA by business area 2004

€ million or %	Operating profit	Average CE	ROCE in %	WACC in %	Spread in % points	Value added
Commercial Vehicles	322	2,550	12.6	11.0	1.6	42
Industrial Services	72	212	34.1	11.0	23.1	49
Printing Systems	3	450	0.6	11.0	(10.4)	(47)
Diesel Engines	55	507	10.9	11.0	(0.1)	0
Turbomachines	36	230	15.7	11.0	4.7	11
Others	42	(204)	–	–	–	18
Total Industrial Business	**530**	**4,153**	**12.8**	**11.0**	**1.8**	**73**
Financial Services[1]	27	134	20.2	13.5	6.7	9
MAN Group	**557**	**4,287**	**13.0**	**–**	**–**	**82**

[1] Equity or ROE for Financial Services

Finance, asset and capital structure

Cash flow in Industrial Business reaches €1.2 billion

	Industrial Business		Financial Services	
€ million	2005	2004	2005	2004
Net liquid assets/(debt) at Jan. 1	**624**	**185**	**(616)**	**(624)**
Cash flow from operating activities	1,576	898	(309)	48
Cash flow from investing activities	(347)	(314)	(31)	(27)
Free cash flow	1,229	584	(340)	21
Cash flow from net liquid asset financing activities	(640)	(97)	(19)	(20)
Cash-based change in net liquid assets	**589**	**487**	**(359)**	**1**
Other changes in net liquid assets	57	(48)	(122)	7
Net liquid assets/(debt) at Dec. 31	**1,270**	**624**	**(1,097)**	**(616)**

For an enhanced presentation of the financial position and the asset and capital structure, the MAN Group's financial information is broken down into Industrial Business and Financial Services, the latter mainly including customer financing transactions with primary focus on commercial vehicles leased to customers. In addition, MAN Finance finances at its own risk trade receivables from customers and operating properties used by MAN Group companies.

The cash flow from the operating activities of Industrial Business surged in 2005 by €678 million to €1,576 million. €847 million of this cash flow is cash earned in the period, €137 million more than in 2004. We pruned the net capital employed in inventories, prepayments, trade receivables and trade payables, thus providing net cash of €419 million (in 2004, we had used €78 million for the net CE). The lion's share was contributed by Industrial Services and Printing Systems as these business areas collected higher customer prepayments. Moreover, we downscaled the funds tied up in the remaining working capital by another €310 million after we had already succeeded in lessening such funds by €266 million in 2004.

Net cash of €347 million was used in investing activities, comparing with €314 million a year ago. Industrial Business stepped up its investing activities considerably, spending altogether €405 million (up from €359 million). The cash inflow from fixed-asset disposal totaled €58 million (up from €45 million).

The net cash of €640 million used in financing activities (up from €97 million) reflects the initial €500 million endowment for MAN Pension Trust e.V., provided for covering our German pension obligations; for details, turn to page 134. In addition, this net cash from financing activities includes the dividend payout at €159 million (up from €117 million) and a cash inflow of €19 million from internal distributions by Financial Services to MAN AG (down from €20 million).

The free cash flow from the operating and investing activities of Industrial Business soared from €584 million a year ago to €1,229 million in 2005. Industrial Business's net liquid assets more than doubled, hiking up by €646 million from €624 million to €1,270 million.

The net cash used by Financial Services in operating and investing activities came to €340 million; in 2004, its operating and investing activities had provided net cash of €21 million. €249 million of this free cash flow in 2005 (up from €143 million) originated from a higher volume of financed customer receivables as these, thanks to the MAN Group's sound liquidity position, were not placed on the market. Another €156 million of Financial Services' free cash flow was attributable to an increase in financed customer leases for commercial vehicles; in 2004, this lease volume had decreased by €101 million. On balance, net financial debt of Financial Services rose by €481 million, from €616 million to €1,097 million.

Capital employed by Industrial Business cut by €500 million

As of December 31, 2005, the capital employed (CE) by Industrial Business totaled €3.4 billion (down from €3.9 billion), the shrinkage from the 2004 level being ascribable to the lower net capital employed in inventories and receivables and the higher total of accruals. At €2.5 billion, fixed assets excluding assets leased out exceeded the prior-year total by €154 million, mainly due to increased investment book values. The assets leased out as reported by Industrial Business at an unchanged €1.6 billion refer to commercial vehicles sold to customers and involving a buyback obligation. This pool is fully financed by customer prepayments of an unchanged €1.9 million.

Including the net liquid assets of €1.3 billion (up from €0.6 billion), total assets of Industrial Business amounted to €4.3 billion at year-end 2005 (down from €4.5 billion) and are funded by equity of €3.1 billion (up from €2.8 billion) and pension accruals of €1.2 billion (down from €1.7 billion).

The Industrial Business cover ratio of fixed assets (tangible/intangible assets, investments) to equity bettered from 121 to 127 percent, the equity ratio of Industrial Business climbing from 22.9 to 25.2 percent. For the MAN Group as a whole, the fixed-asset cover and equity ratios came to 124 pecent (up from 115) and 23.4 percent (up from 22.2), respectively.

Financial Services funds capital employed of €1.3 billion (up from €0.8 billion), which is refinanced by equity at €132 million (down from €146 million) and by financial liabilities within the MAN Group and to third parties at €1.1 billion (up from €0.6 billion).

As of December 31, 2005, the MAN Group's net liquid assets soared to €173 million (up from €8 million) and represent the balance of cash & cash equivalents and securities of an aggregate €1,191 million (up from €761 million) and financial liabilities of €1,018 million (up from €753 million). Industrial Business's net liquid assets totaled €1,270 million (up from €624 million), while Financial Services had net financial debts of €1,097 million (up from €616 million).

Asset and capital structure

	Industrial Business		Financial Services	
€ million	**2005**	**2004**	**2005**	**2004**
Tangible and intangible assets, investments	2,481	2,327	159	131
Net capital employed in inventories, prepayments received, and trade receivables/payables	2,878	3,168	333	103
Assets leased out	250	250	–	–
Allocable to plant construction business	1,619	1,607	789	629
Deferred income from assets leased out	(1,859)	(1,896)	–	–
Other accruals	(1,649)	(1,482)	(26)	(34)
Remaining working capital	(318)	(74)	3	(33)
Capital employed [1]	**3,402**	**3,900**	**1,258**	**796**
Assets of discontinued operations	–	148	–	–
Taxes	(93)	111	(27)	(32)
Allocable to plant construction business	(250)	(250)	–	–
Net liquid assets	1,270	624	–	–
	4,329	**4,533**	**1,231**	**764**
Equity	3,146	2,819	132	146
Pension accruals	1,183	1,714	2	2
Net financial debts	–	–	1,097	616
	4,329	**4,533**	**1,231**	**764**

[1] 2004 excl. discontinued operations

The sturdiest pillar of the MAN Group's debt-funded finances is a syndicated credit facility of €2.0 billion granted by a consortium of 25 banks for an initial term up to December 2010. This credit facility was not utilized as of December 31, 2005. Another group-funding instrument is the €300 million 5.375-percent 7-year Eurobond issue floated by MAN AG in December 2003 through MAN Financial Services plc, Swindon, UK.

Internal finance is additionally ensured by authorities conferred on MAN AG's Executive Board by the annual stockholders' meeting, including authorized capital of €188 million (50 percent of the capital stock) for the issuance of fresh shares against cash contributions or—up to 20 percent of the capital stock-in return for contributions in kind. Moreover, the Executive Board is authorized to issue convertible or warrant bonds in a total amount of €1.5 billion for a maximum term of 20 years. Since the cash flow and the current credit facilities suffice to fund ongoing capital expenditures and the manufacturer leasing volume, neither a capital increase nor a bond issue are at present on the agenda.

Risk management

Doing business entails a constant exposure to risks. We define risk as the danger that certain events, decisions or actions prevent the Group from achieving defined goals and/or successfully implementing certain strategies. For us, this means seizing opportunities only if we can expect a reasonable contribution towards enhancing the Group's shareholder value. Any undertaking consciously accepts risks in order to exploit opportunities surfacing on the market. However, such a policy is only affordable with a risk management system that is effective and tailored to the needs of the business operations.

Alongside the risk management system to be detailed in the following, the MAN Group has further management and control systems. Strategic corporate planning, for instance, secures the perception and appraisal of medium- and long-term opportunities while our controlling system facilitates a faithful representation of current risks and rewards. The liquidity situation is controlled by annual financial plans covering a period of three years and a revolving three-month budget. These are instruments to make sure that management and, in the event of serious risks also MAN AG's Executive Board, are informed in good time about possible business developments and can take the necessary action.

Risk management system again honed
In order to abate risk exposure, the MAN Group had early on set up an efficient risk management system that is continually updated to allow for any new internal and external changes. A groupwide applicable risk management manual constitutes the standard framework for the system installed within the MAN Group. It contains binding rules on the mapping, profiling, analysis, evaluation, control, and monitoring of major risks within the Group and, with its principles and rules, promotes a groupwide common understanding of risk management.

Each business area's management is responsible for making sure that all the first- and second-tier subsidiaries are integrated with the risk management system, thus ensuring that within the business area and its companies risk management procedures conform with the principles of the RMS manual.

1 *Precision at the production stage reduces risks.*
2 *Made by MAN—our products meet the highest quality demands.*

In 2005, we set up groupwide risk boards at the level of MAN AG and all the business areas. These constitute a central control, coordination and monitoring panel at MAN. Generally, these boards comprise representatives from the financial, engineering and legal departments as well as the operating officers. The job of a risk board is, in particular, to act as a radar system for detecting hitherto unrecognized hazards at the business area and to hone and follow up on the risk containment actions and instruments.

Additionally, the risk reporting procedures were standardized and streamlined groupwide. On the basis of a standardized risk catalog, all of the business areas are required to conduct quarterly updated risk assessments and to report the results. Uniformly defined risk areas and appraisal benchmarks allow the Group to spot risks and, at an early stage, identify and contain any accumulating major risks. The introduction of threshold values for each business area ensures a scale of risk reporting commensurate with the business area's size.

MAN's Internal Auditing is responsible for reviewing the workability of the Group's risk management system. In the course of 2005, Internal Auditing conducted numerous audits of the internal control system and the risk management systems installed at the first- and second-tier subsidiaries during which any weaknesses were identified and remedied.

Prospects

As such, risk management is a continuous and dynamic process. In 2006, we will again hone our systems and modify them to match mutating markets and the newest developments.

3 *Projects are rated by risk managers.*

4 *Based on a standardized risk catalog, all business areas submit ongoing risk assessment reports.*

Research and development

Engineering the Future—this is the MAN Group's corporate slogan. In fact, it is the know-how of our engineers combined with our innovative products that we regard as one of our great strengths. Over almost 250 years we have repeatedly demonstrated our technological leadership. The invention of the diesel engine (1893–1897) by Rudolf Diesel and the building of the first direct-injection diesel truck (1923) were milestones in the development of technology at MAN. Our present-day high-tech products perpetuate this tradition, one that will reach into the future.

Our aspiration of supplying the market with top-caliber products is reflected in our brand values. As a dynamic and open company we provide our customers with reliable and innovative product. Ongoing R&D efforts are sowing the seeds for future competitiveness and are securing the sustained corporate success of the MAN Group.

R&D goals

Our R&D efforts are guided by such criteria as enhanced performance, reduced weight, superior efficiency, noise, consumption and emission abatement. Giving customers what they want and need is foremost in our development work. Important R&D areas are enhancing process efficiency and basic research.

So that our products more closely address user needs we conduct an intense, open dialog with our customers in the course of which we also use such methods as Quality Function Deployment. This helps us achieve customer-focused product improvements. Another avenue for obtaining useful feedback during the development process is the advance presentation of detailed solutions and alternative options staged at a Product Clinic for a select circle of customers.

R&D priorities by business area

As Europe's technology leader in LNG buses, Commercial Vehicles is closely examining at the upstream development stage the use of hydrogen in internal combustion engines and in fuel-cell propulsion systems. We are also busy advancing the concept of hybrid drive with regenerative braking for energy savings on vehicles used in local transportation and distribution operations.

1

2

1 *R&D expenditure was significantly increased in 2005.*
2 *Product improvements are geared to customer needs.*

Fiscal 2005 was another year of several bus series start-ups, including the new NEOPLAN VIP buses such as the 13-meter Starliner® and Trendliner models. The MAN brand completed its market launch of the new 15- and 18.75-meter Lion's City generation of buses.

Since the rollout of the new TGL series of light trucks in April 2005, all MAN engines have featured common rail fuel injection for reduced fuel consumption and exhaust emissions. With their state-of-the-art engineering, our vehicles are and will be both Euro 4 and Euro 5 compliant and even better. In order to meet Euro 5 emission norm requirements ahead of time, we have developed for the D20 engine in long-distance haulage operations an SCR technology option (addition of urea) marketed under the name of MAN AdBlue®.

In order to consolidate and expand our foremost technological position we work together with notable companies in and outside Germany. With Navistar International Corporation, Chicago, IL, USA, we have concluded a strategic alliance for developing and building components and systems including diesel engines. With Scania AB, Södertälje, Sweden, we are developing transmissions and axles and, we have teamed up with Liebherr Machines, Bulle, Switzerland, in an effort to develop new V8/V12 engines to go into vehicles, yachts, and power generation systems.

Printing Systems invested in further developing its sheet- and web-fed printing machines. Fierce price competition is compelling the print shops to operate in an extremely efficient and standardized manner, a process in which computer- and software-aided work flows and automation play the key role. In all three segments—web-fed newspaper, commercial web offset, sheet-fed printing—MAN Roland offers across-the-board solutions for quicker makeready and for converging previously disparate production steps into a single machine cycle.

Additionally “printnet” is now extended to all sheet- and web-fed operations as an interlinkage of all printing processes into one continuous work flow.

At Diesel Engines, the most important engineering innovation is an electronic management system for heavy-oil two- and four-stroke engines to allow flexible adjustment to, and optimum fuel consumption throughout, a wide variety of operating conditions. The engine thus consumes less for much reduced emissions. The system allows us to comply with in future even tighter mandatory requirements for marine and stationary application engines.

In the two-stroke sector this innovation has engendered the ME engine series of which meanwhile over 200 have been sold in all sizes. Customer experience not only endorses our expectations but goes to show that electronic management has a prolonging impact on the service life of major engine components.

On four-stroke engines common rail is the electronic management system and during the past fiscal year this, meanwhile heavy-oil compatible technology, was extended to a further engine series now undergoing practice testing.

Another two- and four-stroke gas engine R&D priority is the expanding market of LPG tankers and power plant applications. We have developed both our own dual-fuel engine and engines with high-pressure gas injection.

Of growing significance recently have been gas-to-liquid (GTL) and biomass-to-liquid (BTL) technologies. The necessary products (both for the steam turbines and turbocompressors) call for heavy development outlays since the plants planned are much bigger than built hitherto. Under these circumstances, Turbomachines has launched an ambitious development program designed to further expand the already firm footing in this market.

Emission codes are becoming stricter and stricter in the oil and gas sector and this has prompted us to further develop hermetically sealed inline pipeline compressors with an integrated high-voltage motor cooled by the transported fluid. The position of world supremacy enjoyed in this sector can only be defended by repeatedly improving our products.

Awards for products

The awards conferred on us in 2005 underscore the reception accorded to our efforts to continuously increase product quality.

The new light-duty TGL trucks from MAN were awarded the title Truck of the Year 2006 at the European Road Transport Show 2005 in Amsterdam, Netherlands. This makes MAN Nutzfahrzeuge the first truck builder to receive the coveted trophy for the sixth time. In the development of this 7.5-t to 12-t truck series, the emphasis was on efficiency, comfort, and safety. Alongside the TGL's smartly styled exterior it was, above all, the cab interior that pleased the jury since it gives the driver "an extremely good environment in which to work and rest."

The new NEOPLAN Starliner® luxury tourist coach was voted Coach of the Year 2006 by an international jury of trade journalists and the NEOMAN Bus Group, Busbuilder of the Year 2006. With this award, the management of the *busworld* organization distinguishes manufacturers who have excelled in the fields of new features, innovations, technical achievements, design, comfort and recognition factor.

1 *Production of alternative fuels has created a strong demand for MAN TURBO steam turbines.*
2 *Development of even larger turbines calls for considerable capital expenditure.*

R&D expenditures

R&D expenditures during the period added up to €499 million, equivalent to 4.3 percent of sales by the manufacturing business areas and a gain of 5 percent versus the previous year. Commercial Vehicles, Diesel Engines, and Turbomachines all increased their R&D spending significantly. Altogether €370 million of this expenditure was sourced from our own funds and over 37 percent of this went toward basic research and the development of new products. An amount of €129 million was spent on contracted R&D efforts and projects supported by public funds.

The MAN Group's R&D departments employed 3,987 people (up from 3,706) during the period, with Commercial Vehicles and Diesel Engines raising their numbers, in particular.

For more details on the subject of R&D, refer to pages 19 onward in the magazine section of this annual report.

Research and development

€ million	2005	2004
R&D expenditures	499	476
R&D expenditures by the manufacturing business areas, in % of net sales	4.3	4.5
Internally funded R&D	370	347
Annual average R&D headcount	3,987	3,706

R&D expenditures by business area

€ million	2005	2004
Commercial Vehicles	211	192
Industrial Services	9	15
Printing Systems	114	117
Diesel Engines	116	104
Turbomachines	30	28
Others	19	20
Total	**499**	**476**

3 *There is a continuing trend toward using more electronic components in engine construction.*
4 *In 2005, MAN spent €499 million on research and development.*

Capital expenditures

Capital outlays

€ million	2005	2004
for tangible assets	293	262
for intangible assets	119	95
for investments	28	32
Total	**440**	**389**
Amortization/depreciation/write-down	378	402
Investment ratio in %	116	97

Capital outlays by business area

€ million	2005	2004
Commercial Vehicles	260	209
Industrial Services	33	36
Printing Systems	36	32
Diesel Engines	43	27
Turbomachines	13	17
Others	55	68
Total	**440**	**389**

Our investment policies aim at making production processes more efficient, enhancing productivity, continuously improving product quality, and fine-tuning the sales and service organizations.

Capital outlays amounted to €440 million (up from €389 million), the €51 million rise being chiefly due to additions to tangible assets by Commercial Vehicles and Diesel Engines. The investment ratio (capital outlays in % of amortization/depreciation/write-down) climbed from 97 to 116 percent.

Capital outlays by business area

As always, Commercial Vehicles accounted for the lion's share of expenditures by the MAN Group, chiefly as part of the growth and internationalization strategy. In all, we spent an amount of €260 million (up from €209 million).

Among the focal points were improvements in TGA manufacture, the production capacities being greatly expanded. Besides deciding to build the new assembly plant at Niepołomice near Kraków in Poland, due to take effect next year, we also extended capacities at Salzgitter, Germany, as part of our "18,000 plus" project.

The launch of the new TGL and TGM series was also accompanied by considerable spending and the necessary capacities were expanded for building the new cab at Steyr. At the engine plant, capacities were extended according to the planned start-up curve for the D20 engine generation introduced the previous year.

The expenditures of Buses chiefly concerned expanding the locations in Poland and Turkey. Funds were also allocated to process improvements at the NEOPLAN plants including the Proneo project (restructuring production at Plauen), in setting up logistics areas, and preassembly operations. A property was acquired in Pilsting for accommodating the production facilities relocated from Stuttgart. Other items of expenditure concerned the rollout of new products.

To further improve service quality, 14 new service shops were built. Other sizable rebuilding/conversion projects were either started up or completed. The groundbreaking ceremony was also held for a central office building in Munich.

In order to promote a common corporate identity, the service centers were correspondingly modified and by the end of 2005 over 90 percent of our own and some 65 of authorized third-party service outlets had been restyled.

Most of the expenditures by Industrial Services were accounted for by the Logistics Services unit.

The investing activities of Printing Systems again concentrated on rationalization programs at the manufacturing locations and, especially, on consolidating the production facilities for sheet-fed machines. Other items of manufacturing technology expenditure were quality assurance and productivity enhancements.

A spending priority at Diesel Engines was the restructuring of four-stroke engine manufacture in Denmark, a project largely completed in the past fiscal year. Other outlays concerned machinery, equipment and plant for machining connecting rods at our production plants in Augsburg and Saint-Nazaire, France, and a turning/milling center at the Augsburg turbocharger production plant.

Most of the outlays at Turbomachines were absorbed by the numerous revamping programs and replacements for existing production machinery. In recent years vastly upgraded, turbine blade manufacture at Oberhausen was extended with an additional machine. The Zurich location in Switzerland commissioned a CNC machining center for internal components.

1 *Production capacities for the TGA truck series were significantly expanded.*
2 *Reaching €440 million, MAN's capital expenditures showed a marked increase in 2005 (up from €389 million).*

Workforce

Employees (permanent workforce)
at December 31

	2005	2004
Germany	36,331	37,297
Abroad	21,872	21,711
Total	58,203	59,008
Abroad in %	38	37
Consolidation-related change	(472)	(1,791)

Employees by business area
at December 31

	2005	2004
Commercial Vehicles	33,368	33,810
Industrial Services	4,773	4,679
Printing Systems	8,832	9,026
Diesel Engines	6,423	6,731
Turbomachines	2,476	2,472
Other industrial holdings	1,938	1,935
Financial Services	124	102
HQ	269	253
MAN Group	**58,203**	**59,008**

At December 31, 2005, the MAN Group employed a workforce of 58,203, a decline of 805 or 1.4 percent versus the year-earlier 59,008. The decrease was chiefly due to the disposal of the Penzberg commercial vehicle plant and MAN B&W's heating equipment unit. Like-for-like, the headcount receded by 333 or 0.6 percent. At the domestic companies, the number of employees dropped 966 or 2.6 percent to 36,331, while on balance, the non-German operations upped their workforces by 161 or 0.7 percent to 21,872. Compared with December 31, 2004, the proportion of employees outside of Germany advanced slightly by 1 point to 38 percent. The number of loaned employees in the MAN Group rose by 256, from 2,317 a year ago to 2,573 at December 31, 2005.

Pension plans further developed

Back in 1999 we had already set up a new defined contribution pension plan for newcomers at the domestic plants. In 2005, we also transferred to the new plan the vested benefits of employees who had acquired prior to 1999 a pension entitlement. This new pension system, the same throughout the Group, envisages the disbursement of a pension capital accumulating through annual contributions, rather than current pension payments.

1 *Attracting qualified staff is a key element of our industrial governance management concept.*
2 *38 percent of our employees work abroad.*

In 2005, the MAN Group also began covering its pension obligations by establishing under a Contractual Trust Agreement (CTA) the MAN Pension Trust e.V. to which the participating group companies contributed €500 million.

These added measures more or less complete the redesign of our pension plan. The main advantage of the new system is that we are now largely protected from the funding risks resulting from the growing life expectancy of employees and pensioners and hence our pension plan is also economically more viable in regard to future trends.

Attracting young management talent

Among the elements of our new Industrial Governance program are more intense efforts aimed at attracting and promoting junior management talent. Along with the assessment of existing potentials, management audits have now been introduced for the purpose of providing assistance in the personal development of managerial employees within the Group (more on this subject, pages 23 to 27).

Vocational training

At the close of fiscal 2005, the German companies employed 2,368 apprentices (down from 2,568). Despite the reduction, we were again providing apprenticeships above and beyond our own predicted requirements.

The range of continuing courses, where the emphasis is on foreign languages and computer skills, has been extended. New communication media have also improved employee information options. A groupwide intranet has been set up and a groupwide staff magazine MAN DIRECT created and published.

Thanks to the employees and their representatives

Our thanks go to the employees for their commitment and efforts in fiscal 2005—which were instrumental in the success of the MAN Group. Our thanks also to the employee representatives for helping to maintain an atmosphere of mutual trust and for their readiness to act in the interests of the Group and job security.

3 *Our employees make a major contribution to the success of our business.*

4 *Progress begins with curiosity—scope to satisfy curiosity makes peak performance possible.*

Sustainability management

As the safeguarding of economic interests with consideration for ecological and social needs, sustainability is one of the factors for the success of our corporate strategy. In 2005, we again achieved important milestones in environmental protection.

A core element was the ongoing approval of our locations according to DIN ISO 14001. Previous years had already seen the certification of the Munich, Augsburg, Nürnberg, Salzgitter, Oberhausen and Austrian locations. Meantime the MAN Roland Druckmaschinen Group's three locations in Augsburg, Offenbach and Plauen have their audited environmental management systems, too, meaning that we now generate around 77 percent of overall sales at approved and certified locations.

Above and beyond this, we have been focusing on emissions trading and knowledge management. With our groupwide CO2MAN project, we have laid the foundations for active involvement in trading with emission rights and in projects of the Clean Development Mechanism (CDM). CO2MAN brings together the MAN operations qualifying for CDM projects. As a consequence, knowledge of emissions trading and CDM is anchored in many sales departments. All the documents required for the implementation of CDM projects are available at the CO2MAN platform on the groupwide intranet. An example of such a project is the M5000 methanol plant in Trinidad & Tobago, which MAN Ferrostaal has constructed as the general contractor. The linking of this plant with the N2000 ammonia plant, also built by MAN Ferrostaal, prevents the output of about 230,000 t of CO_2 annually. Rather than escaping into the atmosphere, the CO_2 released during ammonia production goes into the production of methanol.

Knowledge management is a central aspect of our sustainability strategy. For the exchange of technical experience, which we have been practicing successfully for decades, we have now created an innovative forum within our extended intranet. This is where groups of experts can exchange views on current topics as they arise, in addition to the regular meetings. Employees not directly involved in the expert committees also benefit from this. In the know-how sector and process handling, we are thus creating tangible synergies in a variety of fields.

With our products we have made further progress in environmental terms. For instance, the new TGL truck series has a higher payload but consumes less fuel and requires less maintenance. The further-developed common rail engines installed in the TGL have been modified for compliance with the coming Euro 4 and Euro 5 emission limits. With their low fuel and lubricant consumption, the new engines rank among the most eco-friendly and economical commercial vehicle motors on the market.

Our LNG engines, which are particularly suited for bus propulsion, are setting standards. MAN LNG engines already comply with Euro 5 valid as from 2008 and the even tougher EEV standard (Enhanced Environmental Vehicle). In terms of particulate emissions, these engines are likewise outstanding.

Our marine diesel engines have also become more environment-friendly. Equipped with electronic management and common rail technology, these large diesel engines consume less fuel, have much lower emissions and are thus ready for the increasingly demanding requirements of the International Maritime Organization (IMO).

With our MAN TURBO compressor systems and MAN DWE reactors, we have the technology to convert natural gas and biomass into alternative fuels (GTL or BTL). Although this market is currently still in its infancy, pundits anticipate strong growth in the coming years.

Fiscal 2005 saw the renewal of the Bavarian Environmental Pact, which since its first signing in 1995 has evolved into a model approach in environmental protection. MAN Roland and, from the very beginning, MAN Commercial Vehicles are involved in this cooperative venture between the Bavarian government and industry.

These are just some examples of our unrelenting efforts to achieve improvements in environmental protection. Our Sustainability Report, which can be ordered or downloaded at www.man.de, contains detailed information on our activities and all the relevant figures (next update summer 2006).

In addition to product optimization and refinement, the themes of material consumption and resources will be at the forefront of our strategy for the next few years. A team of experts from various business areas is concerned with the medium- and long-term availability of raw materials. The goal is to secure a reliable supply of raw materials in the long run. And this means using resources as sparingly as possible today. We are taking account of this necessity in our purchasing by constantly optimizing our procurement activities, e.g. by pooling them groupwide.

Our sustainability strategy is successful. MAN stock has again been listed in the Dow Jones Sustainability Index (DJSI STOXX) in 2006. This is the leading European index for sustainability and only includes companies with an exemplary record in sustainable company management. Our continuous listing since 2003 is an impressive vindication of our sustainable corporate strategy.

1 *Career development opportunities for employees are an important aspect of sustainability management.*
2 *Synergies are created by exchanging experiences and promoting knowledge transfer on a groupwide basis.*

The MAN Group

MAN is among Europe's foremost engineering groups. In their respective markets, the MAN companies all rank among the top three. With a workforce of around 58,000 in 120 countries, the Group operates in five core areas of business: Commercial Vehicles, Industrial Services, Printing Systems, Diesel Engines, and Turbomachines—represented by the following companies: MAN Nutzfahrzeuge, MAN Ferrostaal, MAN Roland Druckmaschinen, MAN B&W Diesel, and MAN TURBO. Additional stakes are held in RENK (industrial and vehicle gear units and transmissions) und MAN DWE (chemical reactors). The Group also has its own financial services provider in the form of MAN Finance International.

The Group's origins date back to 1758 when in Oberhausen, Rhineland, the St. Antony iron mill was founded. From this and two other metallurgical plants emerged later Gutehoffnungshütte (GHH). A later accretion was Sander'sche Maschinenfabrik, founded in Augsburg in 1840, which following the merger with Nürnberg-based Klett & Comp., adopted the name Maschinenfabrik Augsburg-Nürnberg AG (M.A.N.). M.A.N. was taken over by GHH in 1920. In 1986, GHH and M.A.N. merged to form the MAN Group with a headquarters at the top and subsidiaries running their own business operations yet anchored to the parent through P&L transfer and direct-control agreements.


1

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1 *Unique competence—N2000 ammonia plant built in Trinidad by MAN Ferrostaal.*

2 *Excellent printing—the world´s major newspapers depend on MAN Roland printing systems.*

3 *Excellent driving performance—no other truck manufacturer has won the Truck of the Year award more often than MAN Nutzfahrzeuge.*

4 *Across the oceans—state-of-the-art cruise liners are powered by large four-stroke diesel engines supplied by MAN B&W Diesel.*

5 *Carefully checked—an entire turbomachine is tested at MAN TURBO before being installed in a nitric acid plant.*

Commercial Vehicles

The **Commercial Vehicles** business area is among Europe's leading truck and bus builders, operating seven plants in Germany and another eight abroad (Austria, Poland, Turkey, and South Africa). A further plant will be added in 2007 close by Kraków, Poland. The range reaches from trucks of between 7.5 and 50 t via regular-service and tourist buses and coaches to marine and industrial engines as well as a full spectrum of commercial vehicle services. MAN Nutzfahrzeuge is strongly represented with its TGA in the 16+ t category of trucks; with the new TGL and TGM, MAN is also well positioned among the lighter vehicles.

1 *Driving force behind rising sales—MAN´s TGA.*

2 *High-tech made by MAN—MAN´s new TGM.*

MAN Nutzfahrzeuge Group

€ million	2005	2004
Order intake	9,434	7,589
Order intake excl. MoD[1]	8,076	7,589
Sales	7,377	6,799
Vehicles sold	74,218	69,410
Operating profit	469	322
Headcount at Dec. 31	33,368	33,810
ROS (%)	6.4	4.7
ROCE (%)	17.9	12.6

[1] Ministry of Defense (MoD) contract: €1,358 million in 2005

MAN Nutzfahrzeuge Group
by business unit

€ million	2005	2004
Order intake by Trucks	8,043	6,369
Order intake by Trucks excl. MoD	6,685	6,369
Order intake by Buses	1,391	1,220
Sales by Trucks	6,209	5,557
Sales by Buses	1,168	1,242
Units sold by Trucks	68,209	63,348
Units sold by Buses	6,009	6,062
Operating profit of Trucks	433	285
Operating profit of Buses	36	37

The MAN Nutzfahrzeuge Group succeeded in raising its share of a generally growing European commercial vehicles market. Order intake advanced accordingly to reach an all-time high, partly due to a megacontract awarded by the British Ministry of Defence (MoD). At €469 million (up by €147 million), Commercial Vehicles generated its biggest ever operating profit. As to 2006, the outlook is bright: a stable market, another profit improvement, and an ROS approaching 7 percent.

Economic environment

Despite an only meager advance in capital expenditures and industrial production in 2005, the European commercial vehicles market increased by 7.6 percent during the period. The MAN Nutzfahrzeuge Group outpaced the market as such, raising its share for trucks of over 6 t from 15.3 to 15.6 percent. Gains were posted in almost all European markets, especially in Germany, France, and Poland. The new MAN city buses and NEOPLAN tour coaches were only available as from fall 2005 and so the share of the European bus market slipped from 13.8 to 12.9 percent.

Rising oil and commodity prices are also impacting on the commercial vehicle sector. International competition is growing fiercer in the transport and logistics market while in the transit segment public sector cost pressure will take effect. We nonetheless expect a stable market in Western Europe in 2006, with demand for commercial vehicles again showing strong gains in Central & Eastern Europe, South America, Asia, and in the NAFTA nations.


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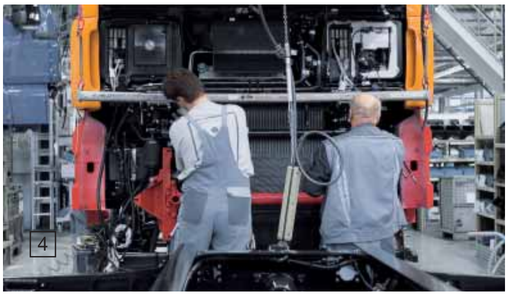
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3 *MAN Nutzfahrzeuge captured an above-average share of the growth in the European commercial vehicle market.*
4 *In 2005, almost 34,000 people were employed by MAN Nutzfahrzeuge.*

Order situation

Orders booked by MAN Nutzfahrzeuge mounted 24 percent to a total €9.4 billion in fiscal 2005 of which Trucks accounted for €8.0 billion. The figure includes €1.4 billion for a contract awarded by the British Ministry of Defence (MoD) for altogether 5,165 vehicles to be delivered between 2007 and 2013. Excluding the MoD contract, order inflow rose 6 percent. Another military contract awarded to MAN came from Denmark in the form of a master agreement which included an initial batch of 143 vehicles ordered in October. Once again, it was the heavy trucks that proved most profitable. Popular was also the new MAN TGL series of light trucks launched at the start of 2005.

Despite the still tough market situation, bus orders at €1.4 billion showed a commendable 14 percent gain. Altogether 7,052 buses were ordered (up by 21 percent). Meriting special mention is a contract for almost 500 vehicles awarded by the municipality of Ankara.

Sales in fiscal 2005 were lifted by 9 percent to €7.4 billion, with Trucks accounting for €6.2 billion, equivalent to an increase of 12 percent. At €1.2 billion, Bus sales were almost 6 percent down while at 6,009, the number of buses shipped out was virtually unchanged versus 2004.

At the close of 2005, orders on hand at the MAN Nutzfahrzeuge Group added up to €3.2 billion (due the military contracts, an increase of €1.6 billion). But even after excluding these latter, we managed to boost order backlog by 19 percent to €1.9 billion. We raised truck production by 6 percent in 2005. Both the domestic and foreign truck manufacturing plants had plenty to keep them busy.

Operating profit

At €469 million, the MAN Nutzfahrzeuge Group posted its highest ever operating profit, versus 2004 an improvement of €147 million or 46 percent. ROS rose from 4.7 to 6.4 percent, ROCE soared 5.3 points to 17.9 percent.

Despite the burden of more expensive commodities, especially steel, we achieved this strong profit improvement through higher production volumes, substantial productivity enhancements and much lower quality and warranty costs.

1 *MAN's TGM—Truck of the Year 2006.*
2 *Worldwide capacity utilization was high.*

The Trucks unit increased its sales by 11.7 percent and operating profit by €148 million or 52 percent to €433 million. This profit improvement was not least of all due to the ongoing productivity progress and structural streamlining. A major step was the sale of the Penzberg component plant to an international investor operating in the field of innovative, diversified engineering and services, which will allow numerous synergies through future cooperation.

At €36 million, the Buses unit's operating profit almost matched the year-earlier level. Launched in the fall of 2005, the new MAN city buses (low entry), the NEOPLAN Trendliner and the Starliner will strengthen our position in the bus market.

Employees

At December 31, 2005, the MAN Nutzfahrzeuge Group employed a workforce of 33,368 (excluding loaned employees), 19,914 employees working in Germany (down from 20,506), 13,427 abroad (up from 13,304). The number of apprentices at December 31, 2005, was 2,150 (down from 2,359 a year before), equivalent to 6.1 percent of the workforce.

Prospects

In 2006, we expect the Western European market to approximate the magnitude of 2005. We aspire to once again achieve a clear gain in sales and operating profit, with ROS approaching 7 percent.

In both the Trucks and Buses units it is our aim to outpace the European market. As in the past fiscal period, larger volumes and further efficiency and structural improvements should lead to an accelerated rise in operating profit in 2006. To consolidate international growth and hence long-term profit, 2006 will see a number of major forward-pointing investments, such as the new assembly plant in Niepołomice near Kraków, Poland, and the establishment of a joint venture in India.

3


4

3 *Numerous product innovations were launched by Buses in 2005.*

4 *Increased production coupled with enhanced quality contributed to record earnings.*

Industrial Services

Industrial Services encompasses worldwide contracting as well as project development and management. Headquartered in Essen, this business area also markets machinery, ships, and transport equipment while providing logistics systems and services. Another role performed by MAN Ferrostaal is a service platform for other MAN Group areas, especially in the newly emerging countries.

1 Project development—a core competence at MAN Ferrostaal.

2 This M5000 methanol plant erected in Trinidad by MAN Ferrostaal produces 5,000 tons of methanol each day.

MAN Ferrostaal Group		
€ million	**2005**	**2004**
Order intake	3,077	3,508
Sales	2,789	3,185
Operating profit	90	72
Headcount at Dec. 31	4,773	4,679
ROS (%)	3.2	2.3
ROCE (%)	38.1	34.1

MAN Ferrostaal Group by business unit		
€ million	**2005**	**2004**
Order intake by Projects & Contracting	1,124	1,136
Order intake by Services & Logistics	1,953	2,372
Sales by Projects & Contracting	807	1,121
Sales by Services & Logistics	1,982	2,064

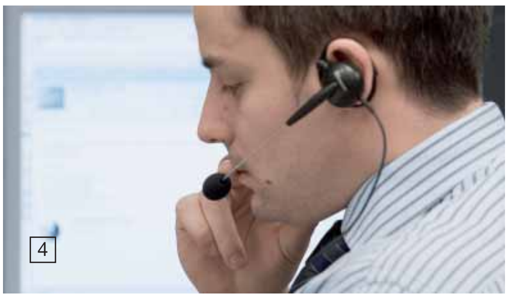
Fiscal 2005 was a most successful period for Industrial Services—the MAN Ferrostaal Group—which achieved the second-best result in its history and an operating profit of €90 million. As expected, order intake and sales were short of the 2004 figures. ROCE reached 38.1 and ROS 3.2 percent.

Since October 2005, MAN Ferrostaal has reformatted its organization and consisted of two units, Projects & Contracting and Services & Logistics. The former subsumes project business and breaks down into Industrial Projects and Marine Business. Services & Logistics comprises Equipment Solutions and Supply Chain Solutions and bundles our services business. This new twin-prong setup will help lend this group a closer strategic focus and a more intelligible, sharper profile to the world outside.

Project business surging ahead

MAN Ferrostaal's project business had a very good year, new orders at €1,124 million almost touching the year-earlier level of €1,136 million. Major contracts were placed, in particular, by customers from the Near and Middle East and Latin America primarily in the oil and gas industry and very willing to invest due to the rising commodity prices.

From the Oman Methanol Company we received an order to build a turnkey methanol complex in Oman engineered for an annual capacity of one million tonnes (t). Other contracts included the construction of a delayed coker for Chile (awarded the distinction Latin America Deal of the Year 2005



3 *Korpedje compressor station in Turkmenistan.*
4 *MAN Ferrostaal's international business is delegated to highly qualified personnel.*

by an international trade journal), extensions to a power plant in Iran, and the construction of a compressor station for Thailand. Delays in the award of contracts and their effective commencement shrank sales from €1,121 million to €807 million.

The past fiscal period saw the handover to the customer and the production start-up ahead of schedule in Trinidad of a methanol plant in construction since 2003. Headway was also made in 2005 on the turnkey extension of a power plant in Venezuela.

We laid the foundations in 2005 for MAN Ferrostaal's marine business to merge into a joint venture with ThyssenKrupp Marine Systems in order to promote closer sales cooperation and even more efficient marketing efforts.

Service & Logistics business down

MAN Ferrostaal's services business had a mixed year. Order intake dropped from €2,372 million in 2004 to €1,953 million, mainly due to lower steel prices in the Materials segment. Sales slipped from €2,064 million a year ago to €1,982 million chiefly because in the case of our logistics services, the business model has been modified to increasingly reflect only the value-adding services furnished by MAN Ferrostaal.

Equipment Solutions benefited from China's economic boom and the upbeat markets of Latin America. The revival in the worldwide printing and packaging industry also impacted favorably on business. 2005 saw the continuation of the restructuring of machinery and systems business initiated the year before.

Operating profit

Despite substantial one-off burdens, the MAN Ferrostaal Group closed the year with an operating profit of €90 million (up from €72 million) thanks to a stable operating business, an upturn in service activities, and solid business at the petrochemical investees which profited from the combination of our methanol and ammonia project companies into a holding company (carried at equity in the balance sheet). The year's restructuring efforts also paid off.

1 *MAN Ferrostaal assembles engines for a customer in Poland.*
2 *Aluminum rolling train supplied to China in 2005.*

Employees

At year-end, MAN Ferrostaal employed a workforce of 4,773 (up from 4,679), including 2,808 in Germany (down from 2,927) and 1,965 abroad (up from 1,752). Altogether 99 youngsters (up from 95) were serving apprenticeships as of December 31, 2005.

Prospects

Marketing efforts in 2006 are being directed at consistently expanding international market positions. Concurrently, internal processes are again being fine-tuned and MAN Ferrostaal's status as a service arm for the MAN Group companies is being strengthened. A first move in this direction is the close cooperation between MAN Ferrostaal and MAN Nutzfahrzeuge in Latin America. A joint venture with MAN B&W Diesel for the worldwide construction of turnkey diesel power plants is in the pipeline.

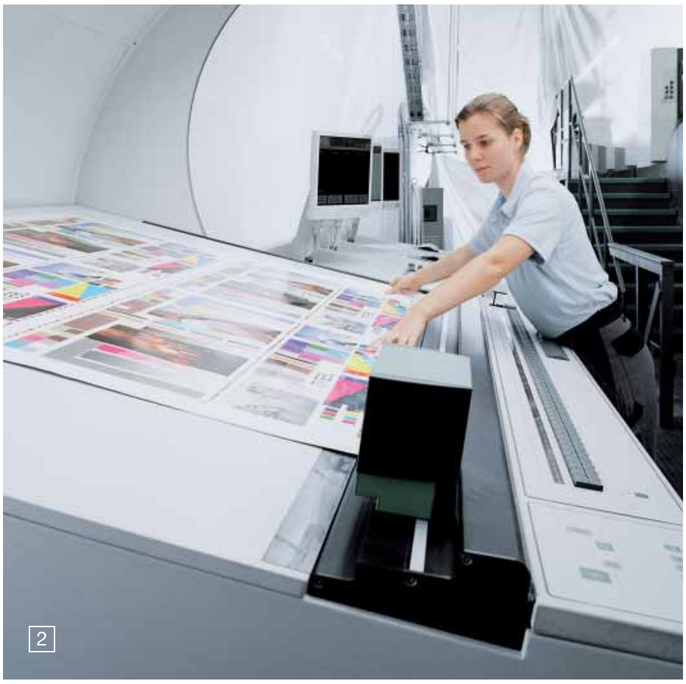
Projects & Contracting is purposefully expanding its project business. We will further strengthen our project management and project development operations. Additionally we intend to transfer such proven business models as the successful methanol and ammonia plants in Trinidad to other countries. Growth opportunities are also identified in plant for producing synthetic fuels through the liquefaction of natural gas and biomass (GTL and BTL). This is an area where MAN Ferrostaal as project developer will resort to the experience of MAN TURBO and MAN DWE and work closely with these units. At Services & Logistics we identify solid growth opportunities through expanding strategic alliances and thereby penetrating into new market segments. We will rigorously extend replacement parts business and global sourcing.

Given the generally favorable situation in the global economy we feel confident of being able to continue our successful business trend in the current fiscal period. Indeed we have set ourselves ambitious goals for 2006: we intend to once again sharply improve our operating profit and returns. Order intake and sales will be significantly lower than in 2005, especially at the Logistics Services units whose accounts—as a result of a modified business model—will increasingly only reflect the value added at MAN Ferrostaal.

3 *Locations in sixty countries call for international teamwork.*
4 *Improving employee qualifications is a focal aspect of personnel work.*

Printing Systems

The **Printing Systems** business area leads the market worldwide in newspaper and commercial web offset printing machines. In the market for sheet-fed offset printing machines for publishing, advertising and packaging, this business area is also among the leaders. MAN Roland designs, builds and commissions complete print shops. A range of services and software products supplements the range. In addition to the Sheet-Fed Machines location at Offenbach and the Web-Fed Machines site in Augsburg, the business area operates another two plants in Germany.



1 *Ongoing process optimization provides for added efficiency.*

2 *The trend to large-format machinery will continue.*

MAN Roland Druckmaschinen Group

€ million	2005	2004
Order intake	2,109	1,885
Sales	1,738	1,620
Operating profit	65	3
Headcount at Dec. 31	8,832	9,026
ROS (%)	3.7	0.2
ROCE (%)	23.2	0.6

MAN Roland Druckmaschinen Group
by business unit

€ million	2005	2004
Order intake by Sheet-Fed Machines	926	850
Order intake by Web-Fed Machines	1,183	1,035
Sales by Sheet-Fed Machines	852	910
Sales by Web-Fed Machines	886	710
Operating profit/(loss) of Sheet-Fed Machines	6	(41)
Operating profit of Web-Fed	59	44

Both Printing Systems units—Web-Fed Machines and Sheet-Fed Machines, or Web and Sheet for short—showed a pronounced upturn in fiscal 2005, with web-fed machine business again very buoyant. In all, an operating profit of €65 million (up from €3 million) was generated. As targeted, Sheet-Fed Machines achieved the announced breakeven after spending three years in the red. This year 2006 we expect the entire MAN Roland Group to show another sharp rise in profit.

Economic environment

The international situation of the printing sector remains highly strained, with industry consolidation continuing as well as worldwide tough competition among the printing machinery manufacturers. A capacity glut in the production of printed matter and the rather critical situation at the majority of the print shops are factors that still stand in the way of business.

The trend toward larger-format machines and reduced makeready times is continuing in sheet-fed, newspaper and commercial web offset machines. Another focal point is inline print enhancement. In the media industry, the trend is moving toward smaller, compact newspaper formats and full four-color design throughout. Magazines and journals are inclining toward smaller print runs and increasing specialization and readership orientation. As a consequence, rapid job changeover is getting to be more and more important.

Order situation

Demand for printing systems steadied versus 2004. The Web unit, in particular, expanded its outstanding position in the marketplace. Besides routine business, we succeeded in booking a series of megacontracts to lift order inflow by 14 percent to €1,183 million. This makes us world leader in both newspaper and commercial web offset printing machines. In Sheet-Fed Machines, we likewise posted a commendable 9 percent gain in order intake to €926 million.

3 *MAN Roland's sheet-fed printing systems are number two on the world market.*
4 *The "printcom" seal of quality is a key feature of MAN Roland's process-engineering system components.*

In all, MAN Roland raised order influx by 12 percent to an all-time annual high of €2,109 million. Sales by the MAN Roland Group rose 7 percent to €1,738 million. Sheet sales at €852 million slipped 6 percent due to a more sluggish order influx in the first half of the year. In contrast, Web sales rose 25 percent to €886 million. Exports accounted for 83 percent (up from 80).

By year-end 2005 order backlog had advanced 39 percent to €1,494 million. Sheet-Fed and Web-Fed Machine order values mounting 57 percent to €213 million and 36 percent to €1,281 million, respectively.

Structural improvements in Sheet-Fed Machines

MAN Roland has succeeded in putting its Sheet-Fed unit back on its feet. Among the measures taken was a massive restructuring of the Rhine/Main plants and now, with the closedown of Geisenheim, all parts manufacture plus the assembly of small- and medium-format machines are concentrated at the central location in Offenbach.

In close vicinity to each other, Engineering Design, Foundry, Parts Manufacture, Electronics, Assembly including Testing, Sales and Service plus the Graphic Center are now united within one industrial zone. Such an arrangement promotes flexible, cost-efficient production and enhances the competitiveness and performance of the products. And since manufacture and assembly are now next door to each other, the outcome is short and much faster information channels. All this impacts favorably on the way the various departments interact. The short lines of communication have a decisive influence on the interaction between such aspects as product quality, function and costs.

The consolidation of departments at one plant and the accompanying regeneration of the existing buildings result in fundamental improvements for the employees. The physical convergence of departments has helped to make work flows faster and more transparent. There is now a better appreciation of upstream/downstream jobs and hence closer product identification for a high level of quality.

Capacity-aligned hours of work with flexitime accounts enable this central plant in its market-responsive role to produce more intelligently, quickly, and economically. Thanks to the improved fixed-cost structure and

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1 *New CROMOMAN presses were supplied for the Gulf Times.*
2 *All-round service and a high level of consultancy are part of the package.*

enhanced flexibility in response to workload fluctuations we now have much more efficient processes and have made the Rhine/Main production location more competitive.

Operating profit

MAN Roland boosted its operating profit by €62 million to €65 million in fiscal 2005. The Sheet unit achieved the targeted turnaround, albeit 2005 was still burdened by restructuring measures. The action taken will only reach full fruition in the years ahead. The Web unit continued to show solid profitability, with an operating profit of €59 million (up from €44 million) and an ROS of 6.6 percent, which given the strained situation in this sector and the prevailing price pressure, is once again highly commendable.

The start of 2003 saw the launch of an action package assembled for the purpose of saving the MAN Roland Group around €130 million. By the end of fiscal 2005, a large portion of these measures had been enacted. Given the plunging prices over the past years and the still extremely critical situation in the sheet market, MAN Roland has launched a follow-up project RAMOS II. The planned measures are designed to save another €50+ million in the Sheet unit, leading to significant earnings improvements as early as 2006 and exercising full impact starting from 2008.

Employees

At December 31, 2005, MAN Roland employed a workforce of 8,832 (down from 9,026), the slight reduction being chiefly due to the downsizing measures in Sheet-Fed Machines. Another 161 were being trained as apprentices (down from 167) on behalf of MAN Roland at the B&W Training Center in Augsburg.

Prospects

Fiscal 2006 is expected to show a slight growth in demand momentum. Excluding the megacontract from News International from the comparison, order intake is likely to advance marginally. The Web unit has bulging order books, is therefore working to capacity, and in all probability will easily exceed 2005 sales. In the Sheet unit, incremental business with new equipment options should impact positively. As a consequence of the capacity downsizing, the restructuring measures and cost reductions, we expect to close 2006 with added oper–ating profit and hence to approach much more closely the MAN Group's return benchmarks.

3 *The COLORMAN, XXL stands for a consistently high quality of newspaper printing.*

4 *The ROLAND 900, XXL has proved itself in the book-printing sector, as well as for magazines and packaging.*

Diesel Engines

The **Diesel Engines** business area is world leader in the market for two-stroke marine propulsion engines and, together with its licensees, supplies over 75 percent of the market. The business area, which is regarded as the “birthplace of the diesel engine,” also commands key positions in the market for large four-stroke diesels for marine and power plant applications. MAN B&W Diesel has plants in Germany, Denmark, France, the UK, the Czech Republic, and China, as well as a closely meshed network of licensees, especially in the large shipbuilding nations of Asia.

1 *The first ship driven by an engine with an output of more than 100,000 HP was built for the Greek shipping company Costamare. The 12K98MC two-stroke MAN B&W Diesel engine offers 101,640 HP and was produced under license in Korea by Hyundai Heavy Industries.*

2 *The continuing high demand for transport capacity is having a positive impact on the marine-engine business.*

MAN B&W Diesel Group		
€ million	**2005**	**2004**
Order intake	2,203	1,872
Sales	1,666	1,421
Operating profit	117	55
Headcount at Dec. 31	6,423	6,731
ROS (%)	7.1	3.9
ROCE (%)	26.1	10.9

MAN B&W Diesel Group by business unit		
€ million	**2005**	**2004**
Order intake by Two-Stroke	733	603
Order intake by Four-Stroke	1,470	1,269
Sales by Two-Stroke Diesel Engines	503	400
Sales by Four-Stroke Diesel Engines	1,163	1,021
Operating profit of Two-Stroke	72	56
Operating profit/(loss) of Four-Stroke	45	(1)

The MAN B&W Diesel Group registered an appreciable rise in order intake and sales in 2005. Thanks to a once again substantial input by the Four-Stroke unit, the operating profit surged to €117 million, more than double that of the year before. On the basis of a very tall order backlog and supported by efficiency-enhancing projects, we expect to close 2006 with another rise in sales and a marked improvement in operating profit.

Economic environment

The situation in the shipbuilding sector is still congenial and is fueling demand for diesel engines, albeit order influx is somewhat back to normal compared with the boom in fiscal 2004. Toward the end of the period, demand for the very large container ships abated. At around 39 percent (up from 38) and in terms of tonnage, it was the oil and special tankers that accounted for the biggest share of the market followed by containers at 28 percent (up from 23). As the year progressed, the market for our large four-stroke engines (RoRo, ferry, passenger ships, cruise liners) improved. The mass freighter segment, in contrast, proved much weaker.

Once again, Asia was the global center for such business. Most of the new orders were placed in South Korea which in 2005 occupied the leading position among the shipbuilding nations, ahead of Japan and the PR China. The Asian shipbuilding facilities will be working to capacity mostly up to 2008, a situation from which the European shipyards are benefiting, especially the German.

3 *The first marine engine with more than 100,000 HP was built by an MAN B&W Diesel licensee, Hyundai Heavy Industries.*

4 *Four-stroke engine production in Augsburg.*

Order situation

The healthy order situation in the shipyard industry continued during the period and again prompted demand for our marine diesel engines. While bulging order books do mean that our plants are being kept very busy they also signify that delivery periods are now longer. The order situation for stationary engines was likewise robust, with demand for both public-grid power plants and power generation units used in a wide variety of industries. Our after-sales service business and turbocharger operations were again on the upswing.

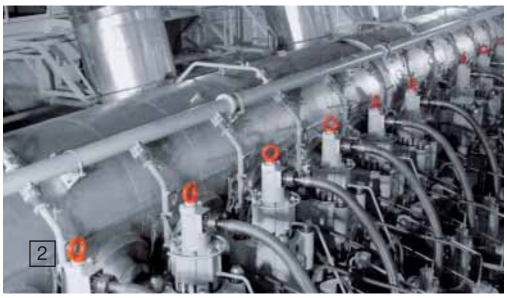
Order intake at €2,203 million (up 18 percent) was again up over the good year-earlier figure. Sales climbed to €1,666 million (up 17 percent), order backlog soaring to €1,991 million (up 37 percent). The production plants have enough to keep them busy in 2006. In the market for two-stroke marine engines MAN B&W commands over 75 percent. In this business unit, our ME series with electronic management has gone down well with the market with presently orders for 216 engines across the entire range having been placed. Demand for the four-stroke medium-speed diesels was likewise brisk–both for propulsion and marine auxiliary purposes. In the case of smaller propulsion units, orders also flowed in, especially for installation in special tankers and freight vessels. During the period we sold a total of 437 new four-stroke engines with a total output of 2,267 MW. According to the *Diesel and Gas Turbine Worldwide* trade journal we have a 38-percent share of the market for medium-speed marine engines with an output of over 0.5 MW and of the market for four-stroke engines with a specific output of over 3.5 MW, 28 percent. Our propulsion system orders and shipments reached a record level in 2005 and consolidated our market position as supplier of all-in propulsion plant. In the market for diesel-engine power plants we considerably expanded our share versus 2004.

Operating profit

The solid order situation combined with the absence of one-off costs for the small medium-speed engines more than doubled the MAN B&W Diesel Group's operating profit from €55 million in 2004 to €117 million. Fiscal 2005 saw the completion of the restructuring process at the Danish Four-Stroke operation. In future, our British MAN B&W Diesel Ltd. plant in Stockport will chiefly focus on the service side of the business and the new RK280 high-speed engine range.

Employees

At December 31, 2005, the MAN B&W Diesel Group employed a workforce of 6,423 (down from 6,731). Another 410 (down from 447) are youngsters serving apprenticeships at the group locations. Most of the workforce reduction was due to the disposal of MAN Heiztechnik and the downsizing of the British plant in Stockport. To enable em-



1 *Experience gained by the market leader flows into engine manufacturing.*
2 *8S50MC-C two-stroke engine for the "MS Eilbeck."*

ployee planning to remain flexible, we hire loaned staff, resort to temporary or limited-term employment contracts, and flexitime accounts.

Prospects

Fiscal 2006 should be another bright year for Diesel Engines, even though in the marine propulsion market we are noting a decline in the steep growth rate. In some specialty markets, however, demand will continue robust or even accelerate such as in the case of LNG tankers for which our new 51/60DF diesel/gas engine is among the products we can offer. Moreover we intend to strengthen our own efforts in order to boost the high-speed diesel business. The power plant sector should continue to prosper, especially in Latin America, the Middle East, and Asia. A cooperation with MAN Ferrostaal for the production of turnkey diesel power plants is in preparation. We expect growing demand from the gas engine market and for bio-fuel plants which our engine technology is well geared to address.

As to after-sales service, we reckon on further expansion. As part of the MAN B&W PrimeServ campaign, we are presently in the process of further upgrading our array of services and adding bases to our worldwide integrated service network. At the start of the present fiscal year, we introduced at Augsburg a new training course under the name International Service Engineer. In order to do justice to the international scope of our diesel engine business and push ahead with the integration of our locations in Germany, Denmark, France, and the UK, MAN B&W Diesel AG is to be transformed in 2006 into a Societas Europaea under the name of MAN Diesel SE.

Our electronically controlled fuel injection systems both for two-stroke and four-stroke engines address the growing demand for lower emissions and reduced fuel consumption. We also want to expand our share of the growing LPG tanker market. In view of this encouraging situation and the bulging order books at the end of 2005, we again expect rising sales for 2006, with the operating profit once more appreciably improved thanks to the healthy business situation and the sweeping efficiency-enhancing projects.

3 *Employee engaged in engine manufacture.*
4 *Installing a crankshaft in a four-stroke marine engine at the Augsburg plant.*

Turbomachines

The **Turbomachines** business area is among the three leading manufacturers and service providers in the world market for compressors and industrial turbines. MAN TURBO has a complete range of turbomachines for the oil and gas sectors, the process industry and the related energy generating operations. Two locations in Germany and others in Switzerland and Italy build single machines and complete machinery trains.

1 *Testing centrifugal compressors for cracked gas with a back-pressure steam turbine for an ethylene plant.*

2 *Two-stage process-gas screw compressor equipment for off-shore use.*

MAN TURBO Group		
€ million	2005	2004
Order intake	850	675
Sales	694	659
Operating profit	43	36
Headcount at Dec. 31	2,476	2,472
ROS (%)	6.2	5.5
ROCE (%)	23.3	15.7

The MAN TURBO Group surpassed its targets for fiscal 2005: order intake at €850 million was much higher, the operating profit again advanced, and the ROS rose to 6.2 percent. Another profitability increase is expected for this year.

Economic environment

The year was characterized by brisk demand for turbomachines in all business sectors. MAN TURBO participated in large energy generation, pipeline and gas-to-liquid projects. The order intake reflects our international focus, with Asia, and especially China, the main markets. The period saw added orders placed on the American continent while the EMEA share (Europe, the Middle East and Africa) as a percentage of total business stayed unchanged. In all, worldwide order intake was geographically again balanced.

Order situation

In terms of new orders, the high year-earlier figure was surpassed by 26 percent to reach €850 million. Improvements were noted in the primary materials, gas transport/ petrochemical, and air separation sectors. Megacontracts were awarded by the energy generation and pipeline segments. Unit sales of prime movers surged versus 2004. New-machine profitability improved, too. After-sales services business failed to quite match the volume of 2004.

With delivery times averaging in excess of a year, sales failed to keep pace with the in-rush of orders and totaled €694 million or 5 percent up over 2004. The new-business boom propelled order backlog to a record high of €621 million at year-end 2005 (up 32 percent).

Operating profit

The operating profit mounted from €36 million to €43 million. ROS improved from 5.5 to 6.2 percent. ROCE hiked up from 15.7 to 23.3 percent, partly because of the downscaled capital employed, especially in inventories and prepayments received.

3 *Turboexpander for off gas.*
4 *Assembling a THM 1304 industrial gas turbine.*

Employees

At December 31, 2005, the number of employees was virtually unchanged at 2,476 (up from 2,472). The German locations had a workforce of 1,632, the non-German 844. The Oberhausen, Zurich and Schio locations also trained 119 youngsters in blue- and white-collar skills. During the period, the vocational and continuing training efforts were accelerated.

Prospects

Given the present project planning situation, we expect for fiscal 2006 brisk demand in virtually all applications and regions. We are setting up further service shops to accelerate this side of the business, too. We also expect the new year to yield sizeable conversion contracts.

The tall order backlog at the close of 2005 will do much to secure sales and workload in the new fiscal year. In continuing the programs for improving business processes and through cost-pruning measures we intend to further enhance profitability.

MAN DWE assigned to the MAN TURBO Group

In future we expect vigorous growth in the market for gas and biomass liquefaction (GTL and BTL) for producing synthetic fuels. In the form of our air separation plants we already possess essential elements of such technology. These are projects in which we are working together with MAN's Industrial Services. Moreover, as a producer of tubular chemical reactors and hence a supplier for GTL and BTL complexes, MAN DWE will as from 2006 be assigned to the MAN TURBO Group.

MAN DWE

€ million	2005	2004
Order intake	112	74
Sales	68	90
Operating profit	7	16
Headcount at Dec. 31	434	442
ROS (%)	10.0	18.3
ROCE (%)	56.3	155.7

1 *Process-gas expander following rotor insertion.*
2 *Internal barrel for a high-pressure compressor.*

MAN Finance

MAN Financial Services

€ million	2005	2004
Operating financing volume	1,672	1,390
Operating profit	28	27
Headcount at 31	124	102
Pretax ROE (%)	20.0	20.2

As their financial services provider, the MAN Finance Group's (MFI) business is closely linked with the business situation at the MAN Group's manufacturing companies. Most of the financing transactions conducted with outside customers concern Commercial Vehicles. New companies were set up in Italy, France and Spain to allow MFI to amplify its presence on major MAN Group markets.

Despite the burden of building new bases, the operating profit (EBT) rose from €27 million to €28 million, a key factor being a further dilution of credit risk within the customer portfolio. The operating financing volume advanced from €1,390 million to €1,672 million.

MFI intends to expand further in 2006. Besides new local companies in a number of countries, the plan is to further enhance presence and market shares of the established MFI companies. We are looking to rising financing volumes and an operating profit on a par with 2005.

RENK

RENK

€ million	2005	2004
Order intake	314	264
Sales	307	272
Operating profit	29	21
Headcount at Dec. 31	1,504	1,493
ROS (%)	9.5	7.7
ROCE (%)	26.4	20.7

RENK AG, a foremost supplier of propulsion systems, succeeded in sharply upgrading order intake, sales, and operating profit.

Order inflow rose by 19 percent to €314 million, chiefly due to the surge in demand for marine gear units. Thanks to a sales increase of 13 percent to €307 million and further rationalization successes, the operating profit jumped from €21 million to €29 million. This listed company, in which we have a stake of 76 percent, showed an ROS of 9.5 percent (up from 7.7)—once again superlative!

With the economy continuing bright, order intake in 2006 should again top the €300 million level. Thanks to the tall order backlog of over €600 million, we identify opportunities for further moderate sales and earnings growth.

Separate financial statements of MAN AG

The MAN Group's uptrend is also mirrored in MAN AG's financial statements, which are briefly described in the summary below. The full financial statements—presented in accordance with German Commercial Code ("HGB") regulations—are available from MAN AG or downloadable from our website: www.man.de

Income statement

€ million	2005	2004
Net investment income	310	234
Remaining pretax P/L, net	(43)	(17)
EBT	**267**	**217**
Income taxes	2	(13)
Net income	**269**	**204**
Transfer to reserves retained from earnings	(70)	(50)
Net earnings	**199**	**154**

MAN AG's net income for 2005 amounted to €269 million. As usual for a group holding company, the profit transferred by MAN AG's subsidiaries (including taxes apportioned) contributed the lion's share of €295 million (up from €290 million).

The remaining pretax loss is the net balance of general administrative expenses, the net interest result and other income and expenses. The higher negative net is particularly attributable to the absence of the HQ allocations charged in previous years and to the fixed-asset disposal gains posted in 2004. The taxes are ascribable to the Company's function as tax group parent and are substantially affected by the EBT of its controlled subsidiaries. Tax-free investment income, the utilization of tax loss carryovers, and taxes refunded for previous years produced a net tax income of €2 million in 2005.

MAN AG's net income rose by €65 million to €269 million, €70 million (up from €50 million) of which was transferred to the reserves retained from earnings. MAN AG's net earnings of €199 million (up from €154 million) are earmarked for the distribution of a cash dividend of €1.35 per MAN share (up from €1.05).

1 *Our publications provide an insight into MAN Group activities.*
2 *MAN AG employees create value added for the entire MAN Group.*

Assets

€ million	2005	2004
Fixed assets	1,435	1,457
Intragroup finance receivables, cash & cash equivalents	2,524	2,162
Other current assets	114	155
	4,073	3,774

Equity & Liabilities

€ million	2005	2004
Stockholders' equity	1,877	1,763
Financial liabilities	1,892	1,732
Remaining liabilities	304	279
	4,073	3,774

The Company's fixed assets of €1,401 million (down from €1,439 million) virtually consist of shares in MAN subsidiaries. The intragroup finance receivables and the cash & cash equivalents originate from MAN AG's central group financing system. Of this total, €1,712 million (down from €1,751 million) refers to intragroup receivables (including profit transfers), another €812 million (up from €411 million) to cash in bank.

Equity breaks down into the capital stock contributed by MAN AG's stockholders (an unchanged €376 million), the additional paid-in capital (an unchanged €795 million), the reserves retained from earnings of €507 million (up from €437 million), and the net earnings of €199 million (up from €154 million).

The financial liabilities refer to the MAN Group's central financing system; €1,828 million thereof (up from €1,668 million) is allocable to the investment with MAN AG of the subsidiaries' temporary surplus cash and to P&L transfers, the balance being accounts due to banks. The remaining liabilities are mainly pension and other accruals.

MAN AG's net liquid assets as of December 31, 2005, came to €632 million (up from €430 million).


3


4

3 *Dynamic and open—the redesigned entrance hall at MAN's Corporate Center.*
4 *MAN Corporate Center in Munich-Schwabing.*

Risks and rewards of further development

The MAN Group's targeted and sustained growth and the further gain in shareholder value are inseparably tied to the reaping of rewards and the acceptance of risks. Supplementing the reports of the various business areas, the following remarks describe the key zones of risks and rewards possibly impacting on the business situation at the MAN Group.

The market

With its commercial vehicles and diesel engines, the MAN Group generates over 60 percent of sales in the transport sector, a market that over the years ahead offers solid growth opportunities and, moreover, options for other MAN business areas. These opportunities are seen to exist for our commercial vehicles both in the core market of Europe as well as in the Near and Middle East and elsewhere in Asia. Opportunities are likewise identified at Industrial Services with the expansion of automotive services and by stepping up the deployment of the international Ferrostaal network as a service platform for MAN products. A case in point: preparations for an alliance with MAN B&W to build turnkey stationary diesel power plants. Additionally, for bundling our groupwide marketing efforts we plan to establish MAN Centers in various sales regions at which all the business areas play in concert.

The MAN Group's chief exogenous risks are economic swings and the related market volatility. With an ongoing analysis of the economic situation and the respective sales markets and by commensurate production flexibility we attempt to realign at an early stage the MAN Group's operations to possible changes and thus counteract any risk of appreciable earnings erosion.

By reaching out with our global marketing activities, we are increasingly exposed to threats that sprout from political or economic imponderabilities in certain regions of the world. We closely observe such threats in order to respond in good time and appropriately through backup and security measures and, where necessary, by stepping down our local activities.

Products

In line with the positive expectations regarding developments in our markets we will continuously push ahead with our product range. For this purpose we deploy our R&D efforts which as part of the annual strategic planning procedures are reviewed with and approved by MAN AG's Executive Board. For many years now, R&D expenses incurred by the manufacturing business areas have ranged between 4 and 5% of their sales.

Another potential threat to the profits of the MAN Group's manufacturing business areas is the still exorbitant energy and commodity market prices, especially for steel. These are threats we counteract through long-term contracts with our suppliers and, where possible, by reaching repricing agreements with our customers. Concurrently, these high prices also offer rewards: our plant construction business is being fueled by orders from the oil and gas industry which, because of worldwide demand, is carrying out and planning numerous capital expenditure projects.

The permanent and ever fiercer global competition in the capital goods markets is basically impacting on our earnings in the form of price pressure. The MAN Group addresses these risks at a number of its locations in and outside Germany by sweeping cost-cutting programs, especially in manufacturing, administration, and purchasing. Increased global sourcing combined with greater outsourcing of production stages are steps planned to generate substantial cost savings. Other measures include a number of programs to shrink payroll expenses by, for instance, concluding collectively negotiated special pay agreements at Printing Systems, Diesel Engines, and Commercial Vehicles. The MAN Group's profitability may well suffer if the targeted personnel cost reductions do not or only partly materialize.

Buyback obligations and financing guaranties pose a risk both in the form of obligations for Commercial Vehicles to buy trucks back if the selling prices obtainable for used vehicles drop appreciably and, secondly, Industrial Services and Printing Systems, which under certain circumstances have to accept customer financing arrangements with a first loss piece or credit guaranties in favor of the customer; however, they hedge against these risks mostly by nonrecourse factoring or through third-party guaranties.

Processes

The repeated honing of our business processes and procedures offers a wide variety of opportunities for improving market position and profitability. Diesel Engines and Printing Systems have launched several programs for converging interlocation operations and corporate functions. These are being continued in 2006. Commercial Vehicles has undertaken a series of initiatives whose aim include superior logistics and production cycles and sequences, improved delivery punctuality, and reduced product nonconformities. Other aspects comprise a consolidation of the European distribution organization for faster customer contract processing.

1 *Optimized production costs increase our competitive strength.*

2 *Major initiatives to streamline production processes were launched at MAN Nutzfahrzeuge.*

Plant construction and megaproject handling are businesses exposed to risks especially in the course of contract execution through, for example, poor performance on the part of our consortium members or subcontractors or else onerous contract formats and/or miscosting. We address these risks through comprehensive project and contract controlling. MAN Ferrostaal, for instance, is developing a special instrument to ensure systematic and comprehensive risk management system right from the bid or quotation phase. This is a tool that is being successively introduced in other areas of the MAN Ferrostaal Group.

Human Resources

Highly skilled specialists and managers are an essential ingredient of technological supremacy and so an indispensable ingredient of our new Industrial Governance concept is Leadership Supply. Leadership Supply concentrates on screening and furthering management talent so that the Group will always have the executive resources it needs. Newly introduced management audits and 360-degree feedbacks are designed to assess middle and senior managers for their leadership performance. Action packages and programs for personal development are then derived from the assessment results. The ultimate aim is to obtain systematic feedback for identifying improvable aspects of personal performance.

Finances

The financing functions of the MAN Group and its operating companies are handled centrally by MAN AG and ensure cash supplies for business operations and capital expenditures, negotiating reasonable credit facilities with the banks and securing the financial aspects of customer contracts. For cash management, surplus cash investment and hedging currency and interest rate risks, MAN AG has a central cash management system that embraces the domestic and international MAN companies alike.

Varying exchange rates may impact on the prices for goods and services as well as profit margins. As a matter of principle, the MAN Group hedges all firm customer contracts and its own foreign-currency purchase orders against currency risks. Hedges are also contracted for budgeted or planned sales from series-production business and firm commitments (i.e., high-probability customer projects). Within this context, the repercussions of exchange rate volatility on the spending power of our customers also represent both risks and rewards as customer budgets and their limitations are affected. Adverse exchange rate trends may, under certain circumstances, depress buying propensity as reflected in eroding sales and earnings.

Adverse effects may also result from capital market rates. To absorb such risks, hedges are contracted for our customer financing arrangements which, as a rule, are made at fixed interest rates.

Prospects

Global economic trends
The most recent forecasts by the economic institutes are good grounds for expecting the world economy to continue its growth. At the start of the year, the international environment proved congenial. Global production of plant and machinery is likely to advance by an estimated 5 percent in 2006. Economic activity in Europe is expected to accelerate and the GDP for Euroland should move up by 1.9 percent.

In Germany, spending on plant and equipment should also benefit significantly from improved depreciation options.

As the year proceeds, the economic prospects in the MAN Group's markets are therefore generally bright. On the basis of the still hospitable international climate we expect demand for capital goods to rise even further.

Sales trend and order intake
For the MAN Group we predict 2006 to show an order intake on a par with or slightly higher than 2005, albeit the aggregate volume will fall short of the €18.0 billion posted in 2005, since last year's megaorders (trucks for the MoD, methanol plant for Oman, and web-fed printing machines for News International) are not repeatable. Also, the reconfiguring of logistics services accounts at the MAN Ferrostaal Group will tend to depress both the order intake and sales figures. Partly because of the bulging order books, sales at the MAN Group will rise over last year's €14.7 billion. On a like-for-like basis, we expect growth at a high single-digit percentage.

Capital expenditures, R&D
Capital expenditures in 2006 will increase from the level of €440 million spent in 2005. The emphasis will again be on rationalization measures and rejuvenating the manufacturing facilities. As always, Commercial Vehicles enjoys the biggest R&D budget, major items including the new assembly plant at Kraków and a share in the joint venture with Force Motors in India. All of these expenditures are fully fundable from the cash flow from operating activities.

The R&D budget for 2006 approximates the €499 million spent in 2005. Focal points will include further developments of the new D20 engine (also in view of the Euro 5 emission limits), alternative propulsion systems for trucks and buses based on hydrogen and regenerative braking for energy savings. Priority at Printing Systems remains the automation of printing processes and a reduction in life-cycle printing costs. Diesel Engines will step up the further development of its engine range, specifically common rail electronic engine management.

Procurement

With many of its suppliers the MAN Group has concluded long-term contracts and negotiated in some cases close cooperation that even extends into engineering developments. As a consequence, substantial portions of the procurement volumes have already been covered for fiscal 2006. The procedure is such that in most instances a specific MAN company will negotiate the details of a master agreement on behalf of all the other MAN Group companies.

Finance, liquidity

With regard to our financial position, we will step up our efforts toward downscaling our capital employed, especially inventories and receivables. In early 2005, we set ourselves the target to reduce the net capital employed by our manufacturing business areas by a total €500 million within 3 years, and now we look back to quite a success in 2005.

In the years ahead, after an initial €500 million contribution in 2005, we will provide additional special and current endowments for the pension fund trust in order to furnish it with further capital resources for funding the MAN Group's pension obligations. According to current budgets, the cash flow from operating activities will suffice to fund such payments. Thanks to the syndicated credit facility of €2.0 billion (which remained unutilized as of December 31, 2005), the MAN Group's liquidity position continues to be sound and healthy. Moreover, MAN AG has authorized capital of €188 million at par to finance M&A transactions.

Employees

The number of MAN Group employees (including loaned) will shrink slightly from the around 60,000 at year-end 2005, mainly due to plans to dispose of a number of smallish companies.


1


2

1 *The MAN Group employed some 60,000 people at the end of 2005.*
2 *The majority of employees are involved in the production process.*

Financial indicators, operating profit, dividend policy

At the start of 2005 we had set ambitious performance benchmarks for the MAN Group and its business areas: an ROS of 6.0 percent and an ROCE of 18.0 percent within the Group by 2007. The ROCE target was achieved back in 2005. With the economy congenial and our order books bulging, we are confident of closing in this year on our ROS benchmark of 6.0 percent.

In terms of profitability in 2006, we expect the MAN Group to show another marked improvement due both to the rising volume of orders and the successful continuation of the restructuring programs initiated at Printing Systems. Commercial Vehicles and Diesel Engines are also starting and continuing with efficiency-enhancing measures. The extent of the profitability gains will largely hinge on how much the economy and hence our production and sales volumes continue to advance. Net income (€472 million in 2005) and EpS (€3.04 in 2005) should move ahead at a similar pace as the operating profit. The dividend paid out by MAN AG will continue to depend on how the Group performs.

Prospects

	2006
Order intake[1]	→
Sales	↗
Operating profit	↗
ROS	nigh 6%
ROCE	↗

[1] excl. megacontracts

3 *Production facilities at MAN B&W Diesel in Augsburg.*
4 *Two-stroke marine engines with electronic controls.*

Consolidated Financial Statements

Contents of Consolidated Financial Statements

Contents of Consolidated Financial Statements (cont'd.)

MAN Group: Consolidated income statement for fiscal 2005

		MAN Group		Industrial Business		Financial Services	
€ million	**Note**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Net sales	(35)	**14,671**	**14,038**	**14,371**	**13,749**	**300**	**289**
Cost of sales		(11,729)	(11,276)	(11,497)	(11,056)	(232)	(220)
Gross margin		**2,942**	**2,762**	**2,874**	**2,693**	**68**	**69**
Other operating income	(8)	474	263	415	208	59	55
Selling expenses		(931)	(927)	(926)	(922)	(5)	(5)
General administrative expenses		(703)	(628)	(694)	(621)	(9)	(7)
Other operating expenses	(9)	(1,070)	(855)	(1,026)	(822)	(44)	(33)
Net P/L from associated affiliates	(10)	46	–	46	–	–	–
Other income from investments	(10)	(1)	(6)	(1)	(6)	–	–
EBIT		**757**	**609**	**688**	**530**	**69**	**79**
Interest income	(11)	38	23	37	23	1	0
Interest expense	(11)	(157)	(190)	(115)	(138)	(42)	(52)
EBT		**638**	**442**	**610**	**415**	**28**	**27**
Income taxes	(12)	(181)	(122)	(171)	(113)	(10)	(9)
Net result of discontinued operations		15	(2)	15	(2)	–	–
Net income		**472**	**318**	**454**	**300**	**18**	**18**
Minority interests		10	15	10	15	–	–
Net income after minority interests		**462**	**303**	**444**	**285**	**18**	**18**
EpS of continuing operations in €	(13)	**3.04**	**2.08**	**2.92**	**1.96**	**0.12**	**0.12**

MAN Group: Consolidated balance sheet as of December 31, 2005

ASSETS		MAN Group		Industrial Business		Financial Services	
€ million	**Note**	**12/31/05**	**12/31/04**	**12/31/05**	**12/31/04**	**12/31/05**	**12/31/04**
Intangible assets	(15)	455	413	454	412	1	1
Tangible assets	(16)	1,882	1,992	1,726	1,863	156	129
Shares in associated affiliates	(17)	147	2	147	2	–	–
Other investments	(17)	156	161	154	160	2	1
Assets leased out	(18)	2,408	2,252	1,619	1,623	789	629
Deferred tax assets	(12)	356	394	355	391	1	3
Other noncurrent assets	(21)	131	186	131	186	–	–
Noncurrent assets		**5,535**	**5,400**	**4,586**	**4,637**	**949**	**763**
Inventories	(19)	3,453	3,393	3,445	3,386	8	7
Trade receivables	(20)	3,177	2,962	2,725	2,752	452	210
Income tax assets		33	104	33	104	–	–
Other current assets	(21)	609	759	537	693	72	66
Short-term securities		172	157	172	157	–	–
Cash & cash equivalents		1,019	604	1,009	602	10	2
Current assets		**8,463**	**7,979**	**7,921**	**7,694**	**542**	**285**
		13,998	**13,379**	**12,507**	**12,331**	**1,491**	**1,048**

Equity & liabilities

EQUITY & LIABILITIES		MAN Group		Industrial Business		Financial Services	
€ million	Note	12/31/05	12/31/04	12/31/05	12/31/04	12/31/05	12/31/04
Capital stock		376	376				
Additional paid-in capital		795	795				
Retained earnings		2,043	1,729				
Accumulated OCI		6	(21)				
Stockholders' equity		**3,220**	**2,879**	**3,088**	**2,733**	**132**	**146**
Minority interests		58	86	58	86	–	–
Total equity	**(22)**	**3,278**	**2,965**	**3,146**	**2,819**	**132**	**146**
Noncurrent financial liabilities	(23)	336	366	22	67	314	299
Pension obligations	(24)	1,185	1,716	1,183	1,714	2	2
Deferred tax liabilities	(12)	385	352	357	317	28	35
Other noncurrent accruals	(25)	420	424	420	424	0	0
Other noncurrent liabilities	(26)	1,132	1,149	1,132	1,149	–	–
Noncurrent liabilities and accruals		**3,458**	**4,007**	**3,114**	**3,671**	**344**	**336**
Current financial liabilities	(23)	682	387	566	369	116	18
Due to/(from) intragroup financing		–	–	(677)	(301)	677	301
Trade payables		1,679	1,622	1,552	1,510	127	112
Prepayments received		1,740	1,399	1,740	1,397	0	2
Current income tax liabilities		121	66	121	66	0	0
Other current accruals	(25)	1,255	1,134	1,229	1,100	26	34
Other current liabilities	(26)	1,785	1,799	1,716	1,700	69	99
Current liabilities and accruals		**7,262**	**6,407**	**6,247**	**5,841**	**1,015**	**566**
		13,998	**13,379**	**12,507**	**12,331**	**1,491**	**1,048**

MAN Group: Consolidated cash flow statement 2005

	MAN Group		Industrial Business		Financial Services	
€ million	2005	2004	2005	2004	2005	2004
EBT	638	442	610	415	28	27
Current income taxes	(109)	(119)	(101)	(104)	(8)	(15)
Amortization/depreciation/write-down of tangible/intangible assets and investments	378	402	369	363	9	39
Increase in pension accruals	56	38	56	37	0	1
Undistributed P/L of associated affiliates	(47)	–	(47)	–	–	–
Other noncash income and expenses	(40)	(1)	(40)	(1)	–	–
Cash earnings	**876**	**762**	**847**	**710**	**29**	**52**
Change in inventories	(129)	(316)	(129)	(328)	0	12
Change in prepayments received	371	217	372	217	(1)	0
Change in trade receivables	(119)	(158)	130	(15)	(249)	(143)
Change in trade payables	60	10	46	48	14	(38)
Change in assets leased out	(169)	(224)	(13)	(325)	(156)	101
Change in income tax assets/liabilities	129	3	129	3	0	0
Change in other accruals	142	202	151	199	(9)	3
Change in other assets	(44)	(61)	(148)	(67)	104	6
Change in other liabilities	159	482	200	432	(41)	50
Elimination of the net gain/loss from fixed-asset disposal	(11)	(11)	(12)	(10)	1	(1)
Other changes in working capital	2	40	3	34	(1)	6
Net cash provided by/(used in) operating activities	**1,267**	**946**	**1,576**	**898**	**(309)**	**48**
Cash outflow for additions to tangible/intangible assets	(412)	(357)	(379)	(327)	(33)	(30)
Cash outflow for additions to investments	(27)	(32)	(25)	(32)	(2)	–
Cash outflow for shares in consolidated subsidiaries	(1)	–	(1)	–	–	–
Cash inflow from fixed-asset disposal	62	48	58	45	4	3
Cash inflow from the disposal of discontinued operations	0	–	0	–	–	–
Net cash used in investing activities	**(378)**	**(341)**	**(347)**	**(314)**	**(31)**	**(27)**
Free cash flow from operating and investing activities	**889**	**605**	**1,229**	**584**	**(340)**	**21**

	MAN Group		Industrial Business		Financial Services	
€ million	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Intragroup dividend distribution	–	–	19	20	(19)	(20)
Dividend payout	(159)	(117)	(159)	(117)	–	–
Securities sold/(purchased)	(12)	14	(12)	14	–	–
Financial liabilities (redeemed)/incurred	156	(266)	58	(284)	98	18
Change in intragroup finance	–	–	(265)	20	265	(20)
Special endowment of pension plan	(500)	–	(500)	–	–	–
Net cash (used in)/provided by financing activities	**(515)**	**(369)**	**(859)**	**(347)**	**344**	**(22)**
Net change in cash & cash equivalents	**374**	**236**	**370**	**237**	**4**	**(1)**
Opening cash & cash equivalents	**604**	**380**	**602**	**377**	**2**	**3**
Consolidation-related change in cash & cash equivalents	5	3	4	1	1	2
Parity-related change in cash & cash equivalents	36	(15)	33	(13)	3	(2)
Closing cash & cash equivalents	**1,019**	**604**	**1,009**	**602**	**10**	**2**

The cash flow from operating activities includes the cash inflow from interest of €38 million (up from €23 million), as well as the cash outflow for interest of €71 million (down from €102 million) and for income taxes refunded at €24 million (up from €115 million of income taxes paid).

MAN Group: Consolidated statement of changes in equity 2005

€ million	Capital stock	Additional paid-in capital	Retained earnings	Accumulated OCI: Currency translation differences	Accumulated OCI: Statement at FV of fin. instruments	Minority interests	Total
Balance at Dec. 31, 2003	**376**	**795**	**1,535**	**(49)**	**2**	**64**	**2,723**
Dividend payout			(110)			(7)	(117)
Net income for 2004			303			15	318
Currency translation effects				5		(1)	4
Changes in unrealized gains/losses					17	6	23
All other changes			1	4		9	14
Balance at Dec. 31, 2004	**376**	**795**	**1,729**	**(40)**	**19**	**86**	**2,965**
Dividend payout			(154)			(5)	(159)
Net income for 2005			465		(3)	10	472
Currency translation effects				41	1	2	44
Changes in unrealized gains/losses					(12)		(12)
All other changes			3			(35)	(32)
Balance at Dec. 31, 2005	**376**	**795**	**2,043**	**1**	**5**	**58**	**3,278**

The *all other changes* line reflects changes in the OCI of associated affiliates at €12 million (up from €0 million), as well as minority interests in the equity of Schwäbische Hüttenwerke (disposed of in 2005) at a negative €36 million.

The total accumulated OCI of €6 million (up from a negative €21 million) breaks down into €8 million allocable to Industrial Business (up from a negative €37 million), and a red €2 million to Financial Services (down from a black €16 million). For further details of equity, see Note (22).

Notes to the consolidated financial statements

(1) General

The consolidated financial statements of MAN AG for the fiscal year ended December 31, 2005, conform with the International Financial Reporting Standards (IFRS, which include the International Accounting Standards, or IAS) of the International Accounting Standards Board (IASB), London, UK. Moreover, all such Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as require application in fiscal 2005 have been duly taken into account. All the Standards applied have also been adopted by the Commission of the European Union (EU).

With a view to deepening the insight into the MAN Group's net assets, financial position and results of operations, MAN AG has additionally broken down the consolidated financial information into Industrial Business and Financial Services. Industrial Business covers all MAN Group companies other than Financial Services. The allocation of assets leased out differs from that in the segment reports in Note (35). The balances from eliminating intragroup transactions between Financial Services and Industrial Business have been assigned to the latter segment.

(2) Consolidation
(a) Consolidation group

Besides MAN AG as the parent, all subsidiaries are included 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. This control is attributable to MAN AG directly or indirectly holding the voting majority of virtually all its subsidiaries, an exception being Intermesa Trading Ltda., a Brazilian company in which MAN Ferrostaal AG holds a 48.5-percent stake and whose control by MAN has been contractually agreed upon.

Companies acquired during the fiscal year are included *pro rata temporis* (p.r.t.) as from the date at which control over financial and business policy is transferred, while those disposed of during the fiscal year are excluded from consolidation as from the date of transfer of beneficial ownership.

One addition to the consolidation group as of December 31, 2005, refers to Truck and Securitisation Ltd. (TARS), a London-based company that finances part of the customer leases in Great Britain. The inclusion became necessary when, upon amendment of the underlying contracts, MAN had thereunder assumed a material portion of this company's risks. The remaining newly included companies are several smallish firms.

Number of consolidated companies

	Germany	Abroad	Total
Included as of December 31, 2004	74	120	194
Newly included in fiscal 2005	5	17	22
Excluded in fiscal 2005	12	6	18
Included as of December 31, 2005	**67**	**131**	**198**

Selected consolidated companies are listed on pages 161 and 162. 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.

(b) 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.

The purchase method is used for capital consolidation. The book values of assets and liabilities—particularly intangible assets—in the acquiree's accounts are reviewed and, on certain conditions, re-accounted for and/or restated to their fair value. Any difference between the purchase cost of the acquiree and the prorated equity is allocated to one or more cash-generating units (CGUs) and capitalized as goodwill. The CGU including the assigned goodwill is tested for impairment at least once annually and, if found impaired, written down to its current fair value.

All intercompany accounts (profits, gains, losses, income, expenses, receivables and payables) among companies included in the consolidated financial statements, as well as intercompany profits/losses from intragroup transfers of inventories and noncurrent assets, are all eliminated. Deferred taxes are calculated for consolidation transactions recognized in net income.

(c) Currency translation

The consolidated financial statements are prepared in €. The functional currency method is used to translate the financial statements of non-Euroland companies. Balance sheet lines are translated at the current, and income statement captions at the annual average, rates. The annual average rates are derived from the monthly means.

In the fixed-asset schedule, accruals analysis and statement of changes in equity, the fiscal year's opening and closing balances as well as consolidation group changes are translated at the applicable current rates, while for the remaining balance sheet lines, the annual average rates are used. Differences from the prior-year currency translation of balance sheet captions are recognized in equity only (OCI).

The euro (€) exchange rates of major currencies are as follows:

	Current rate of €1 at		Average rate of €1 in	
	12/31/2005	12/31/2004	2005	2004
US dollar	1.1797	1.3621	1.2456	1.2424
Pound sterling	0.6853	0.7051	0.6839	0.6795
Danish krone	7.4605	7.4388	7.4516	7.4400
Swiss franc	1.5551	1.5429	1.5473	1.5445
Swedish krona	9.3885	9.0206	9.2844	9.1283
Polish złoty	3.8600	4.0845	4.0313	4.5429
Japanese yen	138.90	139.65	136.92	133.93
South African rand	7.4642	7.6897	7.8901	7.9721
Canadian dollar	1.3725	1.6416	1.5122	1.6162

(3) Accounting and valuation
(a) Income/gains and expenses/losses

Sales are recognized as and when the underlying products or goods have been delivered or the services rendered and after risk has passed to the customer, always net after all sales deductions, such as cash and other discounts, allowances granted to customers, etc. Revenues from customized manufacturing contracts are recognized on a percentage-of-completion (PoC) basis, see note (g) hereof for details.

Sales where a Group company incurs a buy-back obligations are accounted for as operating leases.

Operating expenses are recognized 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 the products are sold. Interest and other cost of debt are expensed in the period.

(b) Intangible assets

Separately acquired intangible assets are capitalized at purchase cost. According to IFRS 3, intangibles acquired in a business combination have since fiscal 2004 been capitalized at fair value as of the acquisition date.

Finite-lived intangibles are amortized on a straight-line basis over their useful lives. The amortization range of software varies between three and eight years, while licenses and similar rights or assets are amortized over the agreed or contractual term of use. Intangible assets whose useful life cannot be determined are not amortized but tested at least once annually for impairment. If found impaired, they are written down to their current fair value. If the fair value of an intangible asset (other than goodwill) previously written down rebounds, the intangible asset is written up accordingly.

Intangible assets created through research activities are not capitalized but directly expensed. Expenses incurred for the development of new products and series are capitalized when the new products or series are found technically feasible and scheduled for internal use or marketing. Development expenditures are not capitalized unless future cash inflows are highly probable to recover them. Capitalized development costs are amortized as from the date of market roll-out. Amortization is charged on a straight-line basis, as a rule over five to seven years (ten years within Diesel Engines).

(c) Tangible assets

Tangible assets are carried at historical (purchase or production) cost, less depreciation and, where appropriate, write-down. The production cost of internally manufactured tangibles includes all direct costs (labor and materials), as well as prorated indirect materials and indirect labor.

Unless subject to capitalization, maintenance and repair (M&R) costs are expensed, as are interest costs in the period of their incurrence.

Tangible assets are depreciated according to the straight-line method over their estimated useful lives. Tangibles whose fair value has decreased below net book value are written down to their current fair value. If the fair value of an asset previously written down rises again, the asset is written up accordingly.

The groupwide uniform asset depreciation ranges are based on the following useful lives:

	Years
Buildings	20 to 50
Land improvements	8 to 20
Production plant and machinery	5 to 15
Factory and office equipment	3 to 10

(d) Associated affiliates

Associated affiliates are investees on which MAN AG exerts significant influence, which is generally deemed to apply if a voting interest of 20 to 50 percent is held. Associated affiliates are carried at equity.

Associated affiliates are capitalized at cost. Subsequently, MAN AG's share in the profits or losses generated after the acquisition date is recognized in the income statement as income from investments. Any other changes in equity are recognized in equity only. Intercompany profits/losses from business transacted between Group companies and associated affiliates are eliminated pro rata within the net P/L from associated affiliates.

(e) Leasing, assets leased out

Leases for tangible assets (investment leases) where substantially all the risks and rewards incidental to beneficial ownership of the leased asset are transferred to an MAN Group company are capitalized and therefore treated as capital leases (*a.k.a.* finance leases). In these cases, the lessee recognizes the leased asset and a corresponding financial liability. All other leases where MAN Group companies are lessees are accounted for as operating leases, the lease payments being expensed.

Assets leased out under operating leases (customer financing) and products sold subject to a buyback obligation are recognized by the lessor at production cost to the Group and depreciated on a straight-line basis over the underlying lease term or until bought back, respectively.

(f) Inventories

Inventories are stated at the lower of (purchase or production) cost or net realizable value. Production cost includes all manufacturing-related direct costs, as well as proratable fixed and variable indirect materials and indirect labor. The allocable overheads are mostly determined on a normal workload basis; in all other cases, their allocation is based on the actual, if corresponding to the normal, capacity utilization rate. General administrative and selling (GAS) expenses are not capitalized, nor are any debt interest costs.

Raw materials and merchandise are generally priced at average purchase cost. Risks resulting from slow-moving items and from the obsolescence or reduced utility of inventories, as well as uncompleted contracts that involve impending losses, are allowed for by writing inventories down to their net realizable values.

(g) Customized manufacturing contracts

Contracts for customized manufacture (or construction) are recognized according to the percentage-of-completion (PoC) method: Based on agreed revenues and expected contract costs, sales and cost of sales are recognized by prorating them at the PoC achieved by the balance sheet date. The contract progress, or PoC, is as a rule determined either on a cost-to-cost basis (i.e., from the ratio the costs incurred by the balance sheet date bear to the expected total contract costs), or on the basis of agreed milestones in cases where new and complex contracts are involved. In the balance sheet, the contract portions proratable according to such PoC are shown as trade receivables net after deducting customer prepayments.

Expected losses on customized manufacturing contracts (so-called onerous contracts) are immediately and fully expensed. Where the estimate of the outcome (P/L) of a PoC contract is not yet sufficiently reliable, revenues are recognized only at the amount of contract costs actually incurred.

(h) Receivables

Receivables and other assets are generally valued at principal or par. Non- or low-interest receivables with a remaining term above 3 months are discounted at 4.0 percent. Receivables which are highly probable to be uncollectible are fully written off (specific bad-debt allowance). A flat allowance for doubtful accounts provides for the general collection risk on the basis of empirical data.

(i) Securities

Securities, if available for sale, are carried at fair value (as a rule the stock market price), the differences between cost and fair value being recognized as other comprehensive income (OCI) within equity, after duly accounting for deferred taxes.

(j) Deferred taxes

Deferred tax assets and liabilities are recognized for temporary differences between tax bases and book values, for consolidation transactions recognized in net income, as well as for tax loss carryovers. Deferred taxes are calculated at the tax rates current at December 31, 2005; in Germany, this rate is 39.9 percent (up from 39.4). The increase is attributable to a higher average municipal factor applied to the municipal trade tax of German Group companies.

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.

(k) Pension obligations

Pension obligations are determined according to the projected unit credit (PUC) method by measuring the defined benefit obligations on the basis of the prorated entitlements acquired by the balance sheet date, duly taking into account assumptions of the future trend of certain parameters that impact on future pension levels.

Pension accruals only show that part of the benefit obligations which already had been recognized in the income statement. Moreover, the fair value of pension plan assets has been deducted. The DBO portion not yet recognized as pension accruals is based on actuarial gains and losses. Actuarial losses in excess of a 10-percent range of the DBO's present value will additionally be recognized in expense over a maximum period of 10 years.

(l) Other accruals

The other accruals provide for all identifiable risks and uncertain commitments at the amount likely to be realized or utilized. Warranty accruals provide for the obligations on the basis of previously incurred warranty expenses, the warranty period and the sale of warranted products, as well as for specific warranties for known claims. Accrued costs yet to be billed, impending losses on uncompleted contracts and other business obligations are provided for at the best estimate of future cash outflows, as a rule the future production cost thereof. Noncurrent accruals are discounted at an annual rate of 4.0 percent. Accruals for obligations owed in kind are not discounted since they are predicated on current prices.

(m) Financial derivatives and hedges

The MAN Group uses various financial derivatives to hedge current or planned/forecasted underlying transactions. Financial derivatives of relevance to the MAN Group are currency forwards and interest rate swaps.

According to IAS 39, financial derivatives are measured at fair (market) value. 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. We determine the fair value of forex options by means of generally accepted option 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 the *other current assets* and, if negative, as *other current liabilities*.

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 hedge type.

If the currency forward hedges an effective underlying transaction (including, without being limited to, an uncompleted contract or a trade receivable), or if an interest rate hedge provides cover for the rate fluctuation risks attaching to fixed-rate receivables from customer financing and leasing, this is a fair value hedge (FVH). In this case, changes in the hedge's and the underlying's fair values are recognized in net income.

Cash flow hedges (CFHs) basically include upstream exchange rate hedges for future sales revenues from series manufacture, for high-probability customer projects. In this case, any change in fair value is recognized in a separate equity line (*other comprehensive income*) after deducting deferred taxes. A CFH is restated as fair value hedge immediately when, and not after, the trade receivable has been recognized.

Any financial derivatives that fail to meet the stringent requirements of IAS 39 for a hedging relationship 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 and current notional volumes, see Note (29).

(n) 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. This applies in particular to pension obligations, other accruals, the capitalization of deferred tax assets for loss carryovers and of development costs, as well as to the disclosure of leased assets. Actual values may differ from those estimates. If the original basis of an estimate changes, the effect of this balance sheet change is recognized in the income statement.

(4) Cash flow statement

The cash flow statement has been prepared in accordance with IAS 7 and breaks down cash flows into those from operating, investing and financing activities. Effects of consolidation group changes are eliminated in the lines concerned. The net parity change in cash and cash equivalents is shown in a separate line. The indirect method is used to determine the cash flow from operating activities.

In the cash flow from operating activities, the noncash operating expenses and income, as well as the net gain/loss from the disposal of intangibles, tangibles and investments, are all eliminated. Cash earnings are shown in a separate line within this caption and represent the change in cash and cash equivalents attributable to the net income for the year.

The cash flow from investing activities reflects the cash outflow for tangible and intangible assets, investments (including those newly consolidated in the period), and assets leased out. This cash outflow is offset against the cash inflow from the disposal of tangible and intangible assets, investments, assets leased out, and discontinued operations. Cash and cash equivalents taken over are deducted from the expenditures for acquiring consolidated subsidiaries.

The cash flow from financing activities mirrors the cash dividends distributed, capital paid in by stockholders, cash inflow from and outflow for securities, as well as financial liabilities redeemed or newly raised. Cash and cash equivalents comprise cash on hand and in bank, as well as within the segments the receivables from MAN's intragroup finance transactions.

(5) Changed accounting methods and rules

In fiscal 2005, we have retroactively changed our accounting for sales subject to buyback obligations. To the extent that the buyback obligation still existed after January 1, 2004, the revenue from any such sale has retrospectively been accounted for as lease instead of recognizing realized *net sales*. This changed accounting practice solely affects Commercial Vehicles and aims at enhancing the comparability of MAN financial information with that of our competitors. While the 2004 comparatives have been restated accordingly, the financial statement data of pre-2004 periods has not.

The changed accounting method has entailed an increase in *assets leased out* while on the liabilities side, the purchase price payments by customers have been shown as deferred income within the *other liabilities*. In the income statement, a lower total of *net sales* is disclosed since the revenue from the original sale is earned only in the amount of the difference between current selling price and future buyback price. Furthermore, accounting for an operating lease also implies that sales and profits are distributed over the lease term.

The changed accounting policy impacts on our financial information and indicators as follows:

€ million	2005 Previous accounting	2005 Change	2005 Current accounting	2004 Previous accounting	2004 Change	2004 Current accounting
Assets leased out	622	1,786	2,408	610	1,642	2,252
Deferred tax assets	312	44	356	350	44	394
Trade receivables	3,339	–162	3,177	2,993	–31	2,962
Equity	3,344	–66	3,278	3,031	–66	2,965
Other accruals	1,800	–125	1,675	1,735	–177	1,558
Other noncurrent liabilities	12	1,120	1,132	4	1,145	1,149
Other current liabilities	1,046	739	1,785	1,046	753	1,799
Net sales	14,955	–284	14,671	14,504	–466	14,038
Cost of sales	(12,023)	294	(11,729)	(11,724)	448	(11,276)
Gross margin	2,932	10	2,942	2,780	–18	2,762
Operating profit	765	–	765	566	–9	557
EBT	638	–	638	450	–8	442
Income taxes	(181)	–	(181)	(125)	3	(122)
Net income	472	–	472	323	–5	318
EpS in €	3.04	–	3.04	2.11	–0.03	2.08
ROS in %	5.1	0.1	5.2	3.9	0.1	4.0

In the segment reports in Note (35), vehicles sold subject to buyback obligations are shown within Commercial Vehicles. A certain number of the vehicles are leased through MAN Finance to customers. In MAN's consolidated financial statements, the changed accounting for vehicles leased out by MAN Finance has no impact at all.

In MAN's consolidated financial statements for fiscal 2005, we have applied for the first time the revised IAS 24, *Related Party Disclosures*; IAS 32, *Financial Instruments: Disclosure and Presentation*; and IAS 39, *Financial Instruments: Recognition and Measurement*. IAS 24 and IAS 32 have entailed additional disclosures in these notes.

As from fiscal 2005 and in line with IAS 39, expenses/losses and income/gains from hedge accounting are no longer offset against the corresponding profit contributions of the hedged underlyings. The new policy has resulted in an increase in other operating income/expenses and in a correspondingly higher total of cost of sales.

The requirements of IAS 39 for risk transfer upon the sale or factoring of receivables have become more stringent, meaning that a number of intragroup receivables sales transacted without sufficient risk transfer between Industrial Business companies and MAN Financial Services now result in a continuing involvement of the seller and therefore remain on the face of the balance sheet. The sale by the MAN Group of receivables to third parties is not affected by the changed rule, only segment reporting.

Another segment reporting change concerns the shift from the management to the risk & reward approach. This has implied that tangible assets leased intragroup via MAN Finance are now treated as capital-leased by, if ownership of the leased assets is likely at lease-end to be transferred to, the Group company as lessee.

In the wake of certain organizational changes, the Commercial Vehicles business area redefined in 2004 and 2005 the bases of expense allocation to selling and general administrative expenses.

Application of the new Interpretations IFRIC 4 and IFRIC 5 was not obligatory for 2005. No significant effects are expected from their application in future periods.

(6) Acquisition and disposal of investments, call and put options

(a) Acquisitions

The MAN Group did not acquire any significant investments in 2005 or 2004.

(b) Disposals in 2005

In fiscal 2005, MAN AG shed a number of marginal (noncore) operations, such as its investments in Schwäbische Hüttenwerke GmbH, MAN Technologie AG, MAN WOLFF-KRAN GmbH, and MAN Logistics GmbH (including the subsidiaries of each investee). During the year, these companies were accounted for separately as discontinued operations according to IFRS 5.

The consolidated financial statements 2005 show the posttax result and the cash flow from the disposal of these companies in separate lines.

The divestments impacted on the financial statements 2005 as follows:

€ million	Sold at	Cash flow from operating activities	Total
Schwäbische Hüttenwerke	52	(5)	47
MAN Technologie	2	(60)	(58)
MAN WOLFFKRAN	2	17	19
MAN Logistics	0.026	(8)	(8)
Total	**56**	**(56)**	**0**

The cash flow from operating activities shows the outflow from the MAN Group of cash and cash equivalents after deconsolidation. The divestments produced total pretax and posttax profits of €23 million and €15 million, respectively (disclosed in a separate income statement line).

The prior-year comparatives in the income statement have been adjusted accordingly: Revenues and expenses of these investees have been eliminated and their posttax results shown separately, see page 120 for the changed figures. As permitted by IFRS 5, the prior-year balance sheet has not been adjusted. As of December 31, 2004, the discontinued operations reported noncurrent assets of €150 million, current assets of €226 million, noncurrent liabilities of €122 million, current liabilities of €169 million, and equity of €85 million.

The MAN Group's business areas disposed of further investments. MAN Nutzfahrzeuge has spun off its Penzberg plant into Automotive Components Penzberg GmbH and transferred its majority interest in this company under a management buyout agreement. Similarly, MAN B&W Diesel shed its heating system operations by MBO, too. The effects of these disposals are insignificant and included in the BUs' financial data.

(c) Disposals in prior years subject to call and put options

On December 7, 2004, Essen-based MAN Ferrostaal sold and transferred a majority stake in DSD Steel Group GmbH, a subsidiary bundling its structural steel business, to the Belgian Pirson Group. The 51-percent stake was sold at a price of €10.2 million while for the remaining 49 percent, put and call options exist that are exercisable by Pirson as from 2007 and by MAN Ferrostaal as from 2010 on the basis of the then current value of the stake.

In fiscal 2003, the MAN Group sold and transferred its 51-percent stake in SMS AG to the Weiss family, which held the remaining 49 percent. The sale and transfer were effected in two lots of 25.5 percent each; the first lot was transferred in fiscal 2003 whereas for the remaining 25.5 percent, reciprocal put and call options have been negotiated, exercisable by MAN as from December 31, 2007.

(7) Adjustment of prior-year comparatives

The changed accounting and valuation policies, methods and rules, as well as the accounting for discontinued operations in accordance with IFRS 5, have entailed the adjustment of the prior year's comparatives. In the balance sheet, only the lines mentioned in Note (5) are affected while in the income statement, the changes refer to the accounting for discontinued operations according to IFRS 5 and the revised method to account for sales subject to buyback obligations, as well as, at Commercial Vehicles, for cost of sales, selling and general administrative expenses.

Adjustments of the consolidated income statement 2004

€ million	2004 published	Adjustment due to IFRS 5	Accounting change	2004 comparable
Net sales	**14,947**	**(443)**	**(466)**	**14,038**
Cost of sales	(12,125)	381	468	(11,276)
Gross margin	**2,822**	**(62)**	**2**	**2,762**
Other operating income	270	(8)	1	263
Selling expenses	(958)	17	14	(927)
General administrative expenses	(611)	17	(34)	(628)
Other operating expenses	(892)	28	9	(855)
Net P/L from associated affiliates	1	(1)	–	–
Other income from investments	(8)	2	–	(6)
EBIT	**624**	**(7)**	**(8)**	**609**
Net interest result of Financial Services	(52)	–	–	(52)
Net interest result of Industrial Business	(119)	4	–	(115)
EBT	**453**	**(3)**	**(8)**	**442**
Income taxes	(130)	5	3	(122)
Result of discontinued operations	–	(2)	–	(2)
Net income	**323**	**–**	**(5)**	**318**
Minority interests	15	–	–	15
Net income after minority interests	**308**	**–**	**(5)**	**303**
EpS in €	**2.09**	**0.02**	**(0.03)**	**2.08**

In segment reporting, the changed allocation of receivables and leased tangibles has decreased the MAN Finance segment's book values as of December 31, 2004, by €571 million and €116 million, respectively, and increased the other segments' book values correspondingly. MAN Finance's intercompany transfers and the associated expenses have been reduced by €28 million. The prior-year data has been restated accordingly.

Notes to the consolidated income statement

(8) Other operating income

€ million	2005	2004
Gains from financial instruments	142	15
Income from the release of accruals	91	42
Income from other trade business, net	71	53
Gains from the disposal of tangible/intangible assets	19	25
Miscellaneous	151	128
	474	**263**

The gains from financial instruments substantially reflect the results from hedges, which as from 2005 are no longer offset against the corresponding results from accounting for the underlyings.

(9) Other operating expenses

€ million	2005	2004
Research and development	333	320
Provisions in the year	272	171
Losses on financial instruments	121	17
Allowances for receivables	58	82
Write-down of goodwill	0	18
Miscellaneous	286	247
	1,070	**855**

The other operating expenses comprise 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. The miscellaneous other operating expenses have been incurred for legal, audit, counseling and consultancy fees, functionally unallocable personnel expenses, as well as a multitude of single items.

(10) Net investment income

€ million	2005	2004
Net P/L from associated affiliates	46	–
Other income from investees	6	11
Expenses from loss absorption	(1)	(2)
Write-down of investments	(7)	(14)
Write-up of investments	1	1
Net gain/(loss) from the disposal of investments	0	(2)
	45	**(6)**

The net P/L from associated affiliates substantially mirrors the net income proratable to MAN of CEL Consolidated Energy Ltd., Port of Spain, Trinidad & Tobago.

(11) Net interest expense

€ million	2005	2004
Interest and similar income	38	23
Interest and similar expenses	(71)	(102)
Interest portion of addition to pension accruals	(86)	(88)
	(119)	**(167)**

(12) Income taxes

Breakdown of income tax expense:

€ million	2005	2004
Current taxes		
Germany	43	56
abroad	66	63
Deferred taxes		
Germany	88	13
abroad	(16)	(10)
	181	**122**

Reconciliation of calculated to actual income tax expense:

€ million	2005	%	2004	%
EBT	**638**	**100.0**	**442**	**100.0**
Calculated income tax	**255**	**39.9**	**174**	**39.4**
Tax-free income	(43)	(6.7)	(23)	(5.2)
Foreign tax rate differentials	(40)	(6.3)	(27)	(6.1)
Statement at equity of associated affiliates	(17)	(2.7)	–	–
Utilization of loss carryovers not recognized in prior years	(7)	(1.1)	(21)	(4.8)
Non-utilization and adjustments of tax loss carryovers	25	3.9	7	1.6
Nondeductible business expenses	8	1.3	9	2.0
Effects of tax rate changes	1	0.2	–	–
Goodwill amortization	–	–	7	1.6
Taxes for prior years	–	–	(1)	(0.2)
Other	(1)	(0.1)	(3)	(0.7)
Actual tax expense	**181**	**28.4**	**122**	**27.6**

Income tax was calculated by applying a total 39.9 percent (up from 39.4) to EBT, this percentage being the combined result from municipal trade income tax at 18.4 percent, corporate income tax at 25.0 percent, solidarity surtax of 5.5 percent of corporate income tax less 4.9 percentage points for municipal trade income tax deductibility from the corporate income tax assessment base.

German companies have capitalized deferred tax assets for loss carryovers (corporate income tax and municipal trade tax) at a total €33 million (down from €84 million), foreign companies for their local taxes a total €14 million (up from €9 million). Tax loss carryovers exist at €658 million (up from €622 million) but have not been capitalized due to vague realizability.

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

€ million	12/31/2005	12/31/2004
Deferred tax assets		
Inventories and receivables	109	86
Other accruals	108	85
Pension accruals	87	124
Other liabilities	5	6
Loss carryovers	47	93
	356	**394**
Deferred tax liabilities		
Noncurrent assets	265	252
Inventories and receivables	96	61
Other assets	5	12
Untaxed/special reserves in separate fin. statements	8	9
Other accruals	11	18
	385	**352**

(13) Earnings per share (EpS)

€ million	2005	2004
Net income after minority interests	462	303
thereof posttax P/L of discontinued operations	15	(2)
Net income from continuing operations after minority interests	**447**	**305**
Number of shares outstanding (million)	147.0	147.0
EpS (€)	**3.04**	**2.08**

In accordance with IAS 33, the number of shares outstanding on an annual average is divided into the Group's net income from continuing operations after minority interests to obtain earnings per share. No unexercised stock options existed to dilute earnings per share, whether at December 31, 2005 or 2004. If MAN AG's contingent (authorized but unissued) capital is issued, earnings will be diluted in the future.

EpS of discontinued operations came to €0.10 (up from a negative €0.02).

(14) Additional notes to the consolidated income statement

Cost of materials

€ million	2005	2004
Cost of raw materials, supplies, and merchandise purchased	6,820	6,919
Cost of services purchased	557	434
	7,377	**7,353**

Personnel expenses

€ million	2005	2004
Wages and salaries	2,668	2,595
Social security taxes, pension expense and related employee benefits	639	582
	3,307	**3,177**

The pension expense of €181 million (down from €184 million), including €111 million (down from €114 million) for the Statutory Social Security Insurance, is part of the corresponding functional expenses and does not include the interest portion contained in the period's pension provision at €86 million (down from €88 million).

Annual average headcount

	2005	2004
Commercial Vehicles	33,645	33,955
Industrial Services	4,833	5,633
Printing Systems	8,981	9,319
Diesel Engines	6,650	6,670
Turbomachines	2,458	2,486
Others	2,321	2,308
	58,888	**60,371**

Breakdown of amortization/depreciation/write-down of fixed assets:

Amortization/depreciation

€ million	2005	2004
of intangible assets	75	64
of tangible assets	269	283
	344	**347**

Write-down

€ million	2005	2004
of goodwill	–	18
of tangible assets	20	20
of investments	14	17
	34	**55**

The reasons for write-down are explained in Notes (15) et seq.

Payments under operating leases totaled €18 million (up from €14 million).

Notes to the consolidated balance sheet

(15) Intangible assets

€ million	Licenses, software, similar rights and assets	Capitalized development costs	Goodwill	Intangible assets
Gross book value at 1/1/2004	115	255	325	695
Accumulated amortization/write-down	(86)	(98)	(110)	(294)
Balance at 1/1/2004	**29**	**157**	**215**	**401**
Additions	21	74	–	95
Disposals	(1)	–	–	(1)
Amortization/write-down	(17)	(47)	(18)	(82)
Balance at 12/31/2004	**32**	**184**	**197**	**413**
Gross book value at 12/31/2004	125	329	197	651
Accumulated amortization/write-down	(93)	(145)	–	(238)
Balance at 1/1/2005	**32**	**184**	**197**	**413**
Consolidation group changes	(1)	–	–	(1)
Additions	34	85	–	119
Disposals	(1)	–	–	(1)
Amortization/write-down	(17)	(58)	–	(75)
Currency translation differences	0	0	–	0
Balance et 12/31/2005	**47**	**211**	**197**	**455**
Gross book value at 12/31/2005	131	400	197	728
Accumulated amortization/write-down	(84)	(189)	–	(273)

The amortization charged in the period to finite-lived intangibles (licenses, software, similar rights and assets, as well as development costs) totaled €75 million (up from €64 million) and is included in the appropriate functional expense categories, mainly cost of sales, while no write-down was charged to goodwill in 2005 (down from €18 million).

Analysis of goodwill

€ million	Balance at 12/31/2005	Balance at 12/31/2004
Trucks	34	34
Buses	91	91
Commercial Vehicles	**125**	**125**
Web-fed presses (Printing Systems)	**9**	**9**
Medium-speed engines (Diesel Engines)	**14**	**14**
Turbomachines	**49**	**49**
	197	**197**

The goodwill has been assigned to the above business areas and originates exclusively from acquisitions and initial consolidation that took place prior to January 1, 2004.

We test goodwill at least once annually for impairment by contrasting the book value of the CGUs (to which the goodwill has been assigned) to their value in use. The latter is calculated by taking the expected future cash flows as stated in the current 3-year plan and discounting them at the MAN Group's WACC of 11.0 percent before taxes (DCF method). The cash flows are determined individually on the basis of the sales and cost plan for each segment to which goodwill has been assigned. The cash flows of the third plan year are carried forward without applying any rate of increase. The value is impaired if the value in use is smaller than the book value including assigned goodwill.

Due to the results of the impairment tests in 2005, no write-down has been charged.

(16) Tangible assets

€ million	Land and buildings	Production plant and machinery	Other plant, factory and office equipment	Prepay-ments on tangibles, construc-tion in progress	Tangible assets
Gross book value at 1/1/2004	2,136	2,159	1,428	31	**5,754**
Accumulated depreciation/write-down	(1,009)	(1,562)	(1,131)	–	**(3,702)**
Balance at 1/1/2004	**1,127**	**597**	**297**	**31**	**2,052**
Consolidation group changes	(6)	(2)	(3)	0	**(11)**
Additions	33	111	83	35	**262**
Book transfers	8	49	(32)	(25)	**0**
Disposals	(8)	(3)	(5)	0	**(16)**
Depreciation/write-down	(63)	(149)	(91)	–	**(303)**
Currency translation differences	5	3	0	0	**8**
Balance at 12/31/2004	**1,096**	**606**	**249**	**41**	**1,992**
Gross book value at 12/31/2004	2,154	2,095	1,374	41	**5,664**
Accumulated depreciation/write-down	(1,058)	(1,489)	(1,125)	–	**(3,672)**
Balance at 1/1/2005	**1,096**	**606**	**249**	**41**	**1,992**
Consolidation group changes	(22)	(36)	(8)	(3)	(69)
Additions	36	121	83	53	293
Book transfers	10	18	8	(38)	(2)
Disposals	(26)	(18)	(8)	0	(52)
Depreciation/write-down	(79)	(128)	(82)	–	(289)
Currency translation differences	6	2	1	0	9
Balance et 12/31/2005	**1,021**	**565**	**243**	**53**	**1,882**
Gross book value at 12/31/2005	2,117	1,904	1,293	53	5,367
Accumulated depreciation/write-down	(1,096)	(1,339)	(1,050)	–	3,485

The depreciation charged to tangible assets at €269 million (down from €283 million) is included in the appropriate functional expense categories, mainly cost of sales. Write-down, which is recognized in other operating expenses, came to €20 million (virtually unchanged) and refers to land and buildings which after closedown of Commercial Vehicles and HQ operating space have been written down to their estimated net fair value.

The investment properties have a total book value of €11 million (down from €12 million), which substantially equals their fair value. Rental income was earned at an unchanged €2 million.

Charges and similar encumbrances on land collateralize liabilities at €13 million (up from €7 million).

(17) Investments

€ million	2005	2004
Shares in associated affiliates	147	2
Other investments	156	161
	303	**163**

As from 2005, CEL Consolidated Energy Ltd., Port of Spain, Trinidad & Tobago (CEL), has been carried at equity as associated affiliate. After completion of the process of reshuffling the investments in several methanol and ammonia plant operator companies, MAN Ferrostaal with its 44.7-percent stake in, exercises significant influence on, CEL. The latter, in turn, owns an interest in Methanol Holdings (Trinidad) Ltd., Trinidad & Tobago (MHTL). Therefore, MAN Ferrostaal's indirect stake in MHTL comes to 19.4 percent.

For fiscal 2005, CEL reports assets of €429 million, liabilities of €46 million, and an EBT of €85 million.

Besides CEL, another three (up from one) small-business companies are carried at equity.

A total €14 million (down from €17 million) was charged as write-down to investments, which is shown at €7 million each within the net investment income (down from €14 million) and the result of discontinued operations (up from €3 million).

(18) Assets leased out

€ million	2005	2004
Gross book value at 1/1	3,211	2,889
Accumulated depreciation/ write-down	(959)	(860)
Balance at 1/1	**2,252**	**2,029**
Consolidation group changes	(16)	–
Additions	1,013	1,003
Book transfers	2	–
Disposals	(380)	(341)
Depreciation/write-down	(464)	(438)
Currency translation differences	1	(1)
Balance at 12/31	**2,408**	**2,252**
Gross book value at 12/31	3,409	3,211
Accumulated depreciation/ write-down	(1,001)	(959)

Most of the assets leased out are commercial vehicles. For accounting details, see Note (5).

Future rents from noncancelable operating leases

€ million	12/31/2005	12/31/2004
Due within 1 year	660	665
Due >1 to 5 years	839	819
Due after 5 years	6	8
	1,505	**1,492**

(19) Inventories

€ million	12/31/2005	12/31/2004
Raw materials and supplies	497	495
Work in process and finished products	2,118	2,239
Merchandise	570	498
Prepayments made	268	161
	3,453	**3,393**

Inventories of €354 million were written down (up from €348 million), the write-down totaling €31 million (down from €71 million).

(20) Trade receivables

€ million	12/31/2005	12/31/2004
PoC receivables	143	125
Due from investees	38	35
Receivables from customers	2,996	2,802
	3,177	**2,962**

€216 million (down from €289 million due to allowance utilization) allows for specific bad debts among trade receivables.

Receivables of €12 million (down from €19 million) have been assigned as collateral security to banks under customer financing contracts.

€338 million (down from €414 million) of the receivables has a lock-in period (i.e., with fixed interest rates) above one year, including €9 million (up from nil) above five years. The remaining €2,839 million (up from €2,548 million) is either not covered by any lock-in agreements, or interest rates have been fixed for less than one year.

We make credit insurance contracts to manage the default risk inherent in trade receivables from customers, mainly by obtaining Hermes cover for export receivables. Moreover, a certain portion of the secured and unsecured portfolio of receivables from plant business is sold to banks by nonrecourse factoring.

The receivables under customized manufacturing contracts recognized according to the PoC method were determined as follows:

€ million	12/31/2005	12/31/2004
Production cost incl. prorated P/L from customized manufacturing contracts	1,542	1,746
less milestones capitalized as WIP	(8)	(10)
less amounts billed to customers	(327)	(344)
PoC receivables, gross	**1,207**	**1,392**
less prepayments received	(1,064)	(1,267)
	143	**125**

Further prepayments received at €379 million (up from €155 million) for which no contract costs have been incurred are shown as liabilities.

Sales from long-term manufacturing contracts totaled €1,115 million (down from €1,246 million). Orders and parts thereof billed to customers are shown under receivables from customers.

(21) Other assets

€ million	12/31/2005	12/31/2004
Loans and other receivables from third parties	198	185
Financial derivatives	78	242
Non-income tax assets	72	57
Reserve from employer's pension liability insurance	54	56
Prepaid expenses and deferred charges	42	42
Due from investees from intragroup finance	29	41
Sundry current assets	267	322
	740	**945**

The other assets are disclosed in these balance sheet lines:

€ million	12/31/2005	12/31/2004
Other noncurrent assets	131	186
Other current assets	609	759

Pursuant to IAS 39, financial derivatives are stated at fair value. Since they mostly hedge against currency risks from customer contracts, their positive fair (market) values contrast with decreased values in the balance sheet lines of the underlyings.

€45 million (down from €66 million) of the other assets has a lock-in period above one year, including €7 million (up from nil) above five years. The remaining €695 million (down from €759 million) is either not covered by any lock-in agreements, or interest rates have been fixed for less than one year.

(22) Equity

€ million	12/31/2005	12/31/2004
Capital stock	376	376
Additional paid-in capital	795	795
Retained earnings	2,043	1,729
Accumulated OCI	6	(21)
Stockholders' equity	**3,220**	**2,879**
Minority interests	58	86
Total equity of the MAN Group	**3,278**	**2,965**

For movements of equity in the period, see the statement of changes in equity on page 108.

(a) Capital stock, authorized capital moves

MAN AG's capital stock amounts to an unchanged €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. A cumulative preferred dividend of €0.11 per share of nonvoting preferred stock is guaranteed, payable in arrears within the succeeding years if omitted in periods of loss.

The capital authorized by the annual stockholders' meeting of December 15, 2000, has been superseded by new authorized capital, as resolved by the annual stockholders' meeting of June 3, 2005. The Executive Board of MAN AG is authorized, after first obtaining the Supervisory Board's approval, to increase the Company's capital stock on or before June 2, 2010, by an aggregate maximum of €188,211,200 (50 percent of the capital stock) through one or several issues of bearer shares of common stock in return for cash or contributions in kind. According to the statement of May 24, 2005, the Executive Board will exercise this authority, when increasing the capital against contributions in kind, only up to an aggregate €75,284,480 (20 percent of the current capital stock). When raising the capital stock in return for cash, stockholders must generally be granted a subscription right. Moreover, the Executive Board is authorized, subject to the Supervisory Board's prior approval, to exclude the stockholders' subscription right (i) in a stock issue in return for cash contributions under the terms of Art. 186 German Stock Corporation Act ("AktG") to the extent that the new stock is required to avoid fractions and/or for issuance to bondholders upon their exercise of option or conversion rights, as well as (ii) in the case of a noncash capital increase.

At their annual meeting on June 3, 2005, the stockholders further authorized the Executive Board, subject to the Supervisory Board's prior consent, to raise an aggregate maximum of €1.5 billion on or before June 2, 2010, by issuing once or several times convertible and/or warrant bonds with a maximum term of 20 years as from issuance date. The bondholders will in this case be granted warrants or conversion privileges for subscribing for new bearer shares of MAN AG common stock at a maximum of €76,800,000 (around 20 percent) of the capital stock, all subject to the detailed convertible or warrant bond terms. The capital stock is thus conditionally increased by up to €76,800,000, divided into a maximum of 30,000,000 bearer shares of common stock. The contingent capital increase will only be implemented to the extent that (i) convertible or warrant bondholders exercise their bond rights and (ii) such rights are not settled or satisfied other than by stock issue. The new stock will for the first time rank for dividend for the year of issuance. Bonds shall be issued in return for cash.

The authority conferred by resolution of the annual stockholders' meeting of June 9, 2004, to repurchase treasury stock was rolled over by resolution of the annual stockholders' meeting of June 3, 2005. The Executive Board is authorized, after obtaining approval from the Supervisory Board, to repurchase on or before December 2, 2006, once or several times MAN AG common and/or nonvoting preferred stock. The authority is capped to an aggregate 10 percent of the capital stock. Such treasury stock may also be reacquired by other Group companies and/or third parties for the account of MAN AG or other Group companies.

The Executive Board has further been authorized, subject to the Supervisory Board's prior approval, to use repurchased treasury shares of common stock also in a way other than by (i) sale on stock markets or (ii) public offering to all stockholders, such as for any other lawful purposes while excluding stockholders from subscription.

(b) Reportable stakes in MAN AG

At the beginning of fiscal 2005, a stake in excess of 25 percent in MAN AG's voting stock had been held by Regina-Verwaltungsgesellschaft mbH, Munich (jointly owned at 25 percent each by Allianz AG, Allianz Lebensversicherungs-AG, Commerzbank AG, and Münchener Rückversicherungs-Gesellschaft). In January 2005, Regina Verwaltungsgesellschaft mbH notified us pursuant to Art. 21(1) German Securities Trading Act ("WpHG") that its voting interest in MAN AG was meantime nil. Furthermore, Allianz AG and Commerzbank AG communicated that at that time their directly held or assigned voting stakes corresponded to 0.82 and 0.74 percent, respectively.

In March 2005, Frankfurt/Main-based Deutsche Bank AG notified us under the terms of Arts. 21(1) and 24 WpHG that its subsidiary, DWS Investment GmbH, Frankfurt/Main, had exceeded the reportable threshold of 5 percent of MAN AG's voting capital, holding a voting stake of 5.06 percent. In June 2005, Deutsche Bank communicated that the voting interest owned by DWS Investment had fallen below the 5-percent threshold and totaled 4.99 percent.

In July 2005, AXA S.A., Paris, France, notified us according to Arts. 21(1), 22(1) and 24 WpHG that the voting stake allocable to AXA S.A. had crossed above the 10-percent mark, coming to 10.09 percent.

(c) Reserves

MAN AG's 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 retained earnings cover MAN AG's reserves retained from earnings of €507 million (up from €437 million), as well as MAN AG's net earnings of €199 million (up from €154 million), the latter corresponding to the total cash dividends distributable. It will be proposed to the annual stockholders' meeting to distribute a €0.30 higher dividend of €1.35 per share.

(d) Accumulated other comprehensive income

Below follows a movement analysis for the statement at fair value of financial instruments in OCI:

€ million	Securities	Hedges	Deferred taxes	Total
Balance at December 31, 2004	**18**	**10**	**(9)**	**19**
Change through sale or reclassification, recognized in net income	(1)	(12)	3	(10)
Change upon statement at fair value	–	(3)	1	(2)
Initial consolidation/deconsolidation	(1)	(4)	2	(3)
Currency translation differences	–	1	–	1
Balance at December 31, 2005	**16**	**(8)**	**(3)**	**5**

(23) Financial liabilities

€ million	12/31/2005	12/31/2004
Bonds	314	299
Commercial papers	114	–
Due to banks	587	454
Other	3	–
	1,018	**753**

Financial liabilities are disclosed in the following balance sheet lines:

€ million	12/31/2005	12/31/2004
Noncurrent financial liabilities (remaining term >1 year)	336	366
thereof remaining term >5 years	12	299
Current financial liabilities (remaining term ≤1 year)	682	387

In December 2003, MAN Financial Services plc, Swindon, UK, floated a €300 million 5.375-percent bond issue. As of December 31, 2005, the book value (including the remeasurement to fair value from FVH accounting for interest rate hedges) amounted to €314 million (up from €299 million), the fair value to €321 million (up from €320 million). 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 commercial papers (CP) were issued through London-based TARS Ltd. and serve to refinance assets leased out.

(24) Pension obligations

Pension accruals break down as follows:

€ million	12/31/2005	12/31/2004
Pension obligations in Germany	1,083	1,646
Pension obligations abroad	102	70
	1,185	1,716

(a) Pension plans and funding

Employees of German MAN subsidiaries benefit from a defined contribution plan (DCP) which centers around the accumulation of capital to be paid out on retirement in one sum; capital redemption in the form of annuities is optional in certain cases. The amount of pension capital is the accumulated total of annual pension modules assigned to employees according to their pensionable pay and their age.

Previously, the DCP was only available to personnel recruited on or after July 1, 1999. In the year under review, with the exception of executive and managerial staff, the vested rights of employees who had joined MAN before that date were transferred to the current DCP, too.

Fiscal 2005 saw MAN's initial steps toward funding the capital for German pension obligations. For this purpose, MAN Pension Trust e.V., a membership corporation under German law, was formed under a Contractual Trust Agreement (CTA) to act as trustee. On December 19, 2005, several Group companies made an initial contribution of a total €500 million to the trust assets.

Under irrevocable agreements, these trust assets are exempt from recourse or attachment by any Group company (trustor) and earmarked solely to fund current pension payments or settle employee claims in the case of employer insolvency. For the purpose of overseeing due and proper management and appropriation of the special pension trust assets, a security trustee independent of the Group has been appointed.

The assets held under the CTA are invested by several asset managers in various funds on the capital market in accordance with specified investment policies, the portfolio structure being as follows:

Bonds	75% to 80%
Equities	20% to 25%

Some non-German subsidiaries (especially in the UK) have incurred defined benefit obligations (DBO) all of which are exclusively plan-funded. Most of the plan assets are invested in equities. Further Group companies (mainly in Austria, Italy, and Turkey) maintain accrual-funded pension plans.

(b) Funding status

The present value of the DBO and the fair value of the plan assets developed as follows:

	Germany		Abroad	
€ million	**2005**	**2004**	**2005**	**2004**
Present value of the DBO				
Present value of the DBO at Jan. 1	1,796	1,679	277	246
Consolidation group changes	(102)	(3)	99	–
Service cost	36	35	10	11
Interest cost	82	90	20	13
Actuarial losses	185	84	56	21
Pension payments	(82)	(85)	(16)	(15)
Contributions by beneficiaries	–	–	2	1
Exchange rate and other changes	(2)	(4)	26	0
Present value of the DBO at December 31	**1,913**	**1,796**	**474**	**277**

The actuarial losses were mainly due to the lower interest rates in 2005 and 2004, as well as to the application of new mortality tables.

	Germany		Abroad	
€ million	**2005**	**2004**	**2005**	**2004**
Plan assets				
Fair value of plan assets at January 1	–	–	174	159
Consolidation group changes	–	–	62	–
Expected return on plan assets	1	–	15	15
Difference between expected and actual return on plan assets	–	–	33	4
Current contributions by employers	–	–	10	6
Special endowment by employers	500		1	–
Contributions by beneficiaries	–	–	2	1
Pension payments	–	–	(12)	(8)
Exchange rate and other changes	–	–	16	(3)
Fair value of plan assets at December 31	**501**	**–**	**301**	**174**

Funding level and pension accruals as of December 31, 2005, were as follows:

	Germany		Abroad	
€ million	**2005**	**2004**	**2005**	**2004**
Present value of the DBO	1,913	1,796	474	277
less fair value of plan assets	(501)	–	(301)	(174)
Funding level	**1,412**	**1,796**	**173**	**103**
Unrecognized actuarial losses	(329)	(150)	(71)	(33)
Pension accruals	**1,083**	**1,646**	**102**	**70**

The present value of the DBO and fair value of plan assets are based on the following parameters:

	Germany		Abroad	
in %	**12/31/2005**	**12/31/2004**	**12/31/2005**	**12/31/2004**
Interest rate	4.25	5.0	4.25–4.9	4.75–5.3
Pension rise	1.5	1.5	2.0–2.9	2.0–2.8
Pay rise	2.5	2.5	3.6–4.4	3.5–4.5
Expected return on plan assets	4.25	–	4.25–7.0	4.25–7.2

The biometrical parameters for pensions in Germany as of December 31, 2005, are based on Prof. Dr. Klaus Heubeck's mortality tables 2005 G and, as of prior year-end, on the mortality tables 1998.

(c) Pension expense

Breakdown of pension expense:

€ million	2005	2004
Current service cost	46	46
Pension-related interest cost	102	103
Recognition of actuarial gains and losses	18	1
Expected return on plan assets	(16)	(15)
	150	**135**

(25) Other accruals

€ million	12/31/2004	Consol. group change, currency transl.	Utilization	Provision in 2005	Release	12/31/2005
Warranties	468	(4)	(163)	235	(32)	504
Unbilled costs from contracts invoiced	296	(5)	(135)	161	(36)	281
Other business obligations	269	2	(59)	212	(32)	392
Obligations to personnel	243	(17)	(40)	56	(15)	227
Remaining accruals	282	(5)	(140)	186	(52)	271
	1,558	**(29)**	**(537)**	**850**	**(167)**	**1,675**

The other accruals are disclosed in these balance sheet lines:

	12/31/2005		12/31/2004	
€ million	noncurrent	current	noncurrent	current
Warranties	154	350	170	298
Unbilled costs from contracts invoiced	87	194	78	218
Other business obligations	29	363	15	254
Obligations to personnel	147	80	157	86
Remaining accruals	3	268	4	278
	420	**1,255**	**424**	**1,134**

The warranty accruals provide for implied and express warranties, as well as accommodation/goodwill warranties voluntarily extended to customers. The accruals for unbilled costs refer to products or services yet to be provided under contracts already invoiced (or parts thereof) and to obligations under maintenance and service contracts. The other business obligations refer substantially to accrued losses and buyback guaranties.

The obligations to personnel exist for accrued employment anniversary allowances, termination indemnities, and preretirement part-time work, apart from restructuring programs enacted upon closedown of the Stuttgart and Geisenheim locations.

Noncurrent accruals have been discounted at €21 million (up from €18 million).

(26) Other liabilities

€ million	12/31/2005	12/31/2004
Deferred income	1,859	1,896
Liabilities to personnel	417	407
Due to investees from intragroup finance	234	184
Financial derivatives	68	145
Liabilities for non-income taxes	131	137
Accrued charges	63	53
Remaining liabilities	145	126
	2,917	**2,948**

The other liabilities are disclosed in the following balance sheet lines:

€ million	12/31/2005	12/31/2004
Other noncurrent liabilities (remaining term >1 year)	**1,132**	**1,149**
thereof with a remaining term of >5 years	–	–
Other current liabilities (remaining term ≤1 year)	**1,785**	**1,799**

The deferred income originates from the sales of commercial vehicles which, due to the associated buyback obligation, are accounted for as operating leases, cf. Note (5). At €1,389 million, this deferred income includes the full purchase price paid by customers (up from €1,292 million) and at €470 million (down from €604 million), the refinancing of the leases through nongroup financing companies.

The liabilities to personnel refer to wages, salaries and social security taxes not yet paid at the balance sheet date, as well as to accrued vacation pay, Christmas bonuses, and special year-end payments.

Pursuant to IAS 39, the *other liabilities* include the negative market values of financial derivatives. Since they serve hedging purposes, their negative market values contrast with increased values in the balance sheet lines of the underlyings.

Other information

(27) Contingent assets and liabilities

In 2002 MAN AG and MAN Nutzfahrzeuge AG brought an action before the High Court in London, UK, against the Canadian company *Freightliner Ltd.* as successor to the Canadian *Western Star Trucks Holdings Ltd.* The action seeks damages in connection with the acquisition in 2000 from Western Star as seller of the stake in the ERF Group, Manchester, UK. In the first judgments passed in October and December 2005, the High Court held that a claim for damages be admitted to MAN on the merits and awarded in its partial judgment damages of £250 million, further claims yet to be dealt with. The defendant applied for an order of certiorari to appeal from these judgments.

MAN has taken steps to enforce judgment for the adjudicated damages. However, in view of the pending appeal and some enforcement-related imponderabilities, the actual value of this claim is uncertain and has therefore not been capitalized in the balance sheet.

Breakdown of contingent liabilities:

€ million	12/31/2005	12/31/2004
Guaranties and suretyships	402	294
Joint liability	311	298
Obligation in favor of consortium partners	44	53
Notes endorsed and discounted	10	60

The contingent liabilities from guaranties and suretyships refer almost exclusively to guaranty bonds furnished by MAN AG and MAN Ferrostaal AG for trade obligations of current and former investees and other entities. Moreover, a debt owed by a consortium partner has been guaranteed, pledged securities providing additional collateral.

A joint liability exists on terms customary in the industry for debts of customers that finance MAN products through nongroup leasing firms or banks; these contingent liabilities refer to printing machines at €163 million (down from €180 million) and commercial vehicles at €148 million (up from €118 million).

(28) Other financial obligations

These exist under various leases, the future lease payments within the minimum operating lease terms falling due as follows:

€ million	12/31/2005	12/31/2004
Investment leases, due		
within one year	19	19
after one but within five years	45	49
after five years	44	53
	108	**121**
Obligations under leases, due		
within one year	77	79
after one but within five years	222	215
after five years	186	212
	485	**506**

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.

(29) Derivative financial instruments and hedging strategies

The MAN Group is 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 set up.

(a) Risk management

MAN Group companies generally 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 straight 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.

(b) Currency risks

Any future cash flows not transacted in the presentation 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 (firm commitments).

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 (90 percent) and currency options (10 percent). Out of the total hedging volume as of December 31, 2005, the US dollar accounted for 43 percent, the pound sterling for 30, the Swiss franc for 9, and the Danish krone another 9 percent.

€ million			12/31/2005	12/31/2004
Notional volume	**≤1 year**	**>1 year**	**total**	**total**
currencies bought	1,280	270	1,550	3,309
currencies sold	1,924	571	2,495	4,357
currency options	136	298	434	39
Fair market values	**positive**	**negative**	**total**	**total**
currencies bought	15	(10)	5	(122)
currencies sold	23	(50)	(27)	211
currency options	21	0	21	0

(c) 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 payback or redemption structure of defined customer portfolios and are further subject to the level of collateral security.

As of December 31, 2005, external interest rate swaps existed in €, US$, £ sterling, and Norwegian krone.

€ million			12/31/2005	12/31/2004
Notional volume	**≤1 year**	**>1 year**	**total**	**total**
interest rate receiver swaps	61	398	459	444
interest rate payer swaps	433	933	1,366	1,398
Fair market values	**positive**	**negative**	**total**	**total**
interest rate receiver swaps	16	(1)	15	16
interest rate payer swaps	3	(6)	(3)	(8)

(d) 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.

(30) Stock-based payments

Executive and management board members of MAN companies receive stock-based payments. Up to fiscal 2004, such payments were based on MAN's Stock Appreciation Rights (SAR) plan, which offered cash payments depending on MAN stock performance (phantom stock options). In fiscal 2005, the MAN Stock Program superseded the SAR, offering cash payments to eligible staff which are earmarked for the purchase of MAN common stock.

(a) MAN Stock Program (MSP)

Under the MSP, which was implemented as of July 1, 2005, selected executive and management board members of MAN companies are granted taxable cash compensation on condition that they appropriate 50 percent to purchase MAN common stock. Such shares are acquired and held in custody centrally by MAN AG in the name and for the account of the beneficiaries, who may freely dispose of the stock after a 3-year qualifying period. During this waiting period, the shares may not be sold, assigned, pledged or hedged. When an MSP participant goes into retirement or separates from the MAN Group, the period is shortened to 1 year as from the date of retirement or separation.

Under the MSP 2005, its participants acquired a total 44,504 MAN common shares at an average price of €42.14, including 20,035 shares for MAN AG's Executive Board members. The cash payments are fully expensed in the year when the MSP is granted. For the MSP 2005, they totaled €3.754 million within the MAN Group.

(b) MAN's SAR plan

Effective July 1, 2000, 2001, 2003 and 2004, the MAN Group had 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, were exercisable and convertible into taxable income (phantom stock options), subject to the MAN common stock price trend in absolute and relative terms.

The strike price of an SAR plan were in each case the closing stock prices as quoted by the Xetra system for MAN shares, averaged over the ten trading days preceding July 1 (plan issuance date). If and when the MAN stock price rises at least 20 percent above the strike price and, after expiration of the qualifying period, MAN stock has outperformed the Dow Jones Euro Stoxx 50 index at least once during five consecutive trading days, plan participants can exercise their SARs.

Under the 2000 and 2001 SAR plans (both granted on a DM basis), participants receive cash of DM 4.00 or €2.045 per SAR for an MAN stock price rise of 20 percent above the strike price. 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 and 2004 SAR plans (€-based), participants will receive cash of €4 per SAR if the market price of an MAN share is 20 percent in the money, and €0.15 for each additional full percentage point of increase, up to an aggregate maximum of €24 per SAR.

The number of SARs developed in the year as follows:

	SARP 2000	SARP 2001	SARP 2003	SARP 2004
Total SARs at January 1, 2005	675,665	546,375	317,550	325,700
exercised in the period	(471,695)	(464,875)	(317,550)	–
Total SARs at December 31, 2005	203,970	81,500	–	325,700
thereof exercisable	203,970	81,500	–	–

The market prices relevant to SAR exercise are as follows:

	SARP 2000	SARP 2001	SARP 2003	SARP 2004
Strike price in €	33.46	25.60	14.55	29.51
Minimum price for exercise in €	40.15	30.72	17.46	35.41
Maximum price for exercise in €	84.77	64.85	36.86	74.76
Market price at Dec. 31, 2005, in €	45.08	45.08	45.08	45.08

€10.440 million (up from €0.380 million) was paid out in the fiscal year as SARs were exercised, including €1.112 million (up from €0) under the SARP 2000, €1.707 million (up from €0.380 million) under the SARP 2001, and €7.621 million (up from nil) under the SARP 2003.

Number of SARs issued to MAN AG Executive Board members:

	SARP 2000	SARP 2001	SARP 2003	SARP 2004
Total SARs at January 1, 2005	293,500	211,000	154,397	154,500
exercised in the period	(243,500)	(211,000)	(154,397)	–
Total SARs at December 31, 2005	50,000	–	–	154,500

€4.957 million (up from €0.168 million) was paid out to MAN AG Executive Board members as SARs were exercised, including €0.561 million (up from nil) under the SARP 2000, €0.690 million (up from €380 million) under the SARP 2001, and €3.706 million (up from nil) under the SARP 2003.

SAR valuation is based on the fair value, which in addition to the stock price trend up to the balance sheet date, also accounts for the potential future trend of MAN stock on the basis of historical volatility factors, as well as for contractual restrictions on exercise. The accruals for SAR plans total €3.547 million as of December 31, 2005 (down from €5.978 million). Due to the soaring MAN stock prices in 2005 and the distribution of the expenses over the 2-year qualifying period, the expenses incurred in fiscal 2005 totaled €8.008 million (up from €5.505 million).

Based on the 2005 closing stock price, the SARs exercisable at the balance sheet date had a value of €1.153 million (up from nil).

RENK AG implemented SAR plans modeled on MAN AG's. As of December 31, 2005, altogether 3,450 SARs remain from the 2003 plan (down from 7,200); for these a (rounded) total of €26,000 has been provided (down from €27,000). An expense (rounded) of €26,000 was incurred in 2005 for the RENK SAR plans (down from €85,000).

(31) Total fees of statutory auditor

The KPMG fees recognized as expense for the work as group auditor totaled €5.7 million in the fiscal year, including €5.0 million for the annual audit, €0.3 million for other certification, verification or assessment services, and €0.4 million for incidentals.

(32) Remuneration of the Executive Board

The remuneration of MAN AG's Executive Board members consists of three components: a fixed compensation, a variable remuneration, and stock-based payments. In addition, Executive Board members are vested with a pension entitlement.

The fixed compensation is paid monthly as salary, added to this are benefits in kind, such as company car use and payment by the Company of insurance premiums in their favor. The variable remuneration hinges on corporate performance, one-half each being governed by the MAN Group's current ROCE and MAN AG's dividend (all within defined bandwidths).

For the stock-based payments, MAN AG Executive Board members participate in the MAN Stock Program, or MSP (up to 2004, in MAN's SARP). Both the MSP and SARP have been described in Note (30), as have the number of shares or SARs granted to the Executive Board, their value and exercise.

The table below breaks down Executive Board remuneration into its components and subdivides it into the CEO's and the average remuneration of all other Executive Board members, thus waiving any further individualization.

Remuneration in 2005 of the Executive Board:

€ '000	Fixed salary	Variable performance-related remuneration	Stock-based payments	Pension expense	Total
CEO Håkan Samuelsson	728	986	330	226	2,270
Other Executive Board members	2,765	3,420	1,359	514	8,058
Total	**3,493**	**4,406**	**1,689**	**740**	**10,328**
Average of each Executive Board member excl. CEO	455	563	223	84	1,325

Remuneration in 2004 of the Executive Board:

€ '000	Fixed salary	Variable performance-related remuneration	Stock-based payments	Pension expense	Total
CEO Dr. Ing. E. h. Rudolf Rupprecht	659	689	266	72	1,686
Other Executive Board members	3,112	2,822	1,228	760	7,922
Total	**3,771**	**3,511**	**1,494**	**832**	**9,608**
Average of each Executive Board member excl. CEO	445	403	175	109	1,132

The amount of variable remuneration is subject to the resolution by the annual stockholders' meeting of the proposed dividend for the fiscal year.

Due to the changed concept, the 2005 volume of stock-based payments is hardly comparable to the prior year's. The 2005 value includes the expenses for both stock purchase and cash payments. The 2004 figure reflects the fair value as of December 31, 2005, of the SARs granted under the SARP 2004. Since the MAN stock price surged in fiscal 2005, this fair value made a €0.844 million leap from €0.650 million at year-end 2004 to €1.494 million as of December 31, 2005. For the exercise of SARs under earlier programs and the related payout after the qualifying period, see Note (30).

The pension obligations to Executive Board members exist as DBO, whose present value as of December 31, 2005, totaled €9.524 million (down from €11.899 million) for active Executive Board members. The expense for the annual provision came to €1.129 million (down from €1.461 million), including €0.741 million (down from €0.832 million) for current service cost and €0.389 million (down from €0.629 million) for interest cost.

Pension payments to former Executive Board members and their surviving dependants amounted to €5.810 million (up from €4.299 million), while the accrual for pension obligations to such former members and their surviving dependants totaled €33.532 million (up from €33.393 million).

The Executive Board members including their memberships in other statutory supervisory and comparable boards are disclosed on pages 158–160 of this annual report.

(33) Supervisory Board

Supervisory Board compensation is subject to the provisions of the bylaws. Accordingly, Supervisory Board members are reimbursed for their office-related expenses and receive an annual fee which consists of a basic €10,000 (€2,500 up to 2004) and a variable fee of €550 for each €0.01 of the MAN AG dividend in excess of €0.10. The Supervisory Board Chairman receives double, the vice-chairpersons 1.5 times, this amount. Members of the Audit Committee are paid an additional 25 percent, the Audit Committee's chairman 50 percent, of the Supervisory Board basic fee.

Supervisory Board remuneration 2005 in €

Name	Membership in the year	Fixed fee	Variable fee	Audit Committee compensation	Total
Dr.-Ing. Ekkehard D. Schulz, Chairman as from June 3, 2005	all year	15,750.00	108,281.25	11,320.31	135,351.56
Dr. h. c. Eng. Volker Jung, Chairman up to June 3, 2005	up to June 3, 2005	8,500.00	58,437.50	8,367.19	75,304.69
Prof. Dr.-Ing.Joachim Milberg, Vice-Chairman as from June 3, 2005	all year	12,875.00	88,515.63	11,320.31	112,710.94
Dr. rer. pol. Gerlinde Strauss-Wieczorek, Vice-Chairwoman	all year	15,000.00	103,125.00	19,687.50	137,812.50
Dr. oec. Paul Achleitner, Vice-Chairman up to June 3, 2005	up to June 3, 2005	6,375.00	43,828.13	16,734.38	66,937.50
Jürgen Bänsch	all year	10,000.00	68,750.00		78,750.00
Michael Behrendt	all year	10,000.00	68,750.00		78,750.00
Dr.-Ing. Herbert H. Demel	as from June 3, 2005	5,750.00	39,531.25		45,281.25
Detlef Dirks	all year	10,000.00	68,750.00		78,750.00
Jürgen Dorn	all year	10,000.00	68,750.00		78,750.00
Klaus Eberhardt	as from June 3, 2005	5,750.00	39,531.25		45,281.25
Reinhard Frech	as from July 1, 2005	5,000.00	34,375.00		39,375.00
Dr. rer. nat. Hubertus v. Grünberg	all year	10,000.00	68,750.00		78,750.00
Jürgen Hahn	all year	10,000.00	68,750.00		78,750.00
Dr. jur. Heiner Hasford	up to June 3, 2005	4,250.00	29,218.75	8,367.19	41,835.94
Dr. phil. Klaus Heimann	all year	10,000.00	68,750.00		78,750.00
Dr. jur. Karl-Ludwig Kley	as from June 3, 2005	5,750.00	39,531.25	22,640.63	67,921.88
Prof. Dr. rer. pol. Renate Köcher	all year	10,000.00	68,750.00		78,750.00
Nicola Lopopolo	all year	10,000.00	68,750.00		78,750.00
Andreas de Maizière	up to June 3, 2005	4,250.00	29,218.75		33,468.75
Thomas Otto	all year	10,000.00	68,750.00		78,750.00
Lothar Pohlmann	all year	10,000.00	68,750.00	19,687.50	98,437.50
Dr. Ing. E. h. Rudolf Rupprecht	as from June 3, 2005	5,750.00	39,531.25		45,281.25
Ralf Simon	up to June 3, 2005	5,000.00	34,375.00		39,375.00
Dr. rer. nat. Hanns-Helge Stechl	all year	10,000.00	68,750.00		78,750.00
Total 2005		**220,000.00**	**1,512,500.00**	**118,125.00**	**1,850,625.00**
Total 2004		54,583.33	1,140,791.67	82,125.00	1,277,500.00

The rise from 2004 is due to the higher fixed fee (resolved by the annual stockholders' meeting of June 9, 2004) and the increased dividend-related variable remuneration.

Expenses for per diem fees for the participation in Supervisory Board and committee meetings total approx. €60,000 in 2005. No compensation was paid to Supervisory Board members for advisory or agency services. One Supervisory Board member has been granted a 25-year housing loan carrying interest at 5.0 percent annually and secured by a land charge. The loan balance as of December 31, 2005, amounted to €0.028 million (down from €0.031 million).

The Supervisory Board members including their memberships in other statutory supervisory and comparable boards are disclosed on pages 154–157 of the annual report.

(34) Corporate governance code

In December 2005, 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 June 2, 2005, 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 CEO's remuneration and the average salary of all other Executive Board members are 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.

(35) Segment reporting

In accordance with the lineup of products and services, the MAN Group's operations break down into the Commercial Vehicles, Industrial Services, Printing Systems, Diesel Engines and Turbomachines segments. These segments are identical with the MAN Nutzfahrzeuge, MAN Ferrostaal, MAN Roland Druckmaschinen, MAN B&W Diesel and MAN TURBO business areas. Under the umbrella of Others, the remaining industrial subsidiaries RENK and MAN DWE are subsumed, as well as MAN Finance and the parent MAN AG as holding company and HQ, to which also companies with no operating business have been assigned.

Segment financial information conforms with the disclosure and valuation methods applied in formulating the consolidated financial statements. Order intake data has been derived from the Group's reporting system and not been externally audited. Intersegment transfers are based on fair market prices as if at arm's length. Amortization, depreciation and write-down refer to the intangible and tangible assets, investments and assets leased out allocable to each business area. Total segment assets correspond to the consolidated total assets of the companies in the regions concerned. For details of ROS and ROCE, see pages 52 et seq. of the group management report.

Segment information by business area

Condensed financial information of the segments

€ million	Commercial Vehicles 2005	Commercial Vehicles 2004	Industrial Services 2005	Industrial Services 2004	Printing Systems 2005	Printing Systems 2004	Diesel Engines 2005	Diesel Engines 2004	Turbo-machines 2005	Turbo-machines 2004
Order intake by the segments	**9,434**	**7,589**	**3,077**	**3,508**	**2,109**	**1,885**	**2,203**	**1,872**	**850**	**675**
thereof Germany	2,708	2,699	502	524	317	268	361	250	82	146
thereof abroad	6,726	4,890	2,575	2,984	1,792	1,617	1,842	1,622	768	529
Intersegment order intake	(221)	(191)	(12)	(91)	(59)	(70)	(44)	(34)	(10)	(3)
Order intake by the Group	9,213	7,398	3,065	3,417	2,050	1,815	2,159	1,838	840	672
Sales by the segments	**7,377**	**6,799**	**2,789**	**3,185**	**1,738**	**1,620**	**1,666**	**1,421**	**694**	**659**
Intersegment transfers	(83)	(34)	(14)	(73)	(62)	(73)	(37)	(37)	(3)	(57)
Group sales	7,294	6,765	2,775	3,112	1,676	1,547	1,629	1,384	691	602
Order backlog at Dec. 31	**3,228**	**1,594**	**2,358**	**2,259**	**1,494**	**1,077**	**1,991**	**1,449**	**621**	**469**
Headcount at Dec. 31	**33,368**	**33,810**	**4,773**	**4,679**	**8,832**	**9,026**	**6,423**	**6,731**	**2,476**	**2,472**
thereof Germany	19,941	20,506	2,808	2,927	7,281	7,448	2,524	2,671	1,632	1,639
thereof abroad	13,427	13,304	1,965	1,752	1,551	1,578	3,899	4,060	844	833
Annual average headcount	**33,645**	**33,955**	**4,833**	**5,633**	**8,981**	**9,319**	**6,650**	**6,670**	**2,458**	**2,486**
EBITDA	**664**	**505**	**112**	**107**	**96**	**61**	**158**	**107**	**56**	**45**
Depreciation/amortization	(219)	(183)	(22)	(35)	(43)	(58)	(41)	(52)	(13)	(9)
EBIT	**445**	**322**	**90**	**72**	**53**	**3**	**117**	**55**	**43**	**36**
Interest	(63)	(81)	(15)	(10)	(6)	(11)	(9)	(15)	(4)	(6)
EBT	**382**	**241**	**75**	**62**	**47**	**(8)**	**108**	**40**	**39**	**30**
Operating profit/(loss)	**469**	**322**	**90**	**72**	**65**	**3**	**117**	**55**	**43**	**36**
Cash earnings	506	386	(17)	69	88	56	140	74	50	35
Cash flow from operating activities	523	567	315	(60)	251	164	199	89	88	75
Cash flow from investing activities	(229)	(205)	(25)	(14)	(33)	(32)	(40)	(21)	(5)	(17)
Free cash flow	294	362	290	(74)	218	132	159	68	83	58
Capital expenditures	260	209	33	36	36	32	43	27	13	17

[1] Assets including discontinued operations

Others											
Industrial holdings		MAN Finance		Headquarters		Consolidation		Total		Group	
2005	2004	2005	2004	2005	2004	2005	2004[1)]	2005	2004	2005	2004
426	**338**	**325**	**253**	**2**	**2**	**(432)**	**(477)**	**321**	**116**	**17,994**	**15,645**
147	162	227	281	2	2	(281)	(482)	95	(37)	4,065	3,850
279	176	98	(28)	0	0	(151)	5	226	153	13,929	11,795
(37)	(20)	(48)	(67)	(1)	(1)	432	477	346	389	–	–
389	318	277	186	1	1	–	–	667	505	17,994	15,645
375	**362**	**300**	**289**	**2**	**2**	**(270)**	**(299)**	**407**	**354**	**14,671**	**14,038**
(14)	(27)	(56)	3	(1)	(1)	270	299	199	274	–	–
361	335	244	292	1	1	–	–	606	628	14,671	14,038
722	**676**	**611**	**581**	**0**	**0**	**(132)**	**(151)**	**1,201**	**1,106**	**10,893**	**7,954**
1,938	**1,935**	**124**	**102**	**269**	**253**	**–**	**–**	**2,331**	**2,290**	**58,203**	**59,008**
1,805	1,785	76	74	264	247	–	–	2,145	2,106	36,331	37,297
133	150	48	28	5	6	–	–	186	184	21,872	21,711
1,942	**1,959**	**115**	**98**	**264**	**251**	**–**	**–**	**2,321**	**2,308**	**58,888**	**60,371**
41	**47**	**78**	**118**	**(52)**	**25**	**(18)**	**(4)**	**49**	**186**	**1,135**	**1,011**
(11)	(10)	(9)	(39)	(23)	(9)	3	(7)	(40)	(65)	(378)	(402)
30	**37**	**69**	**79**	**(75)**	**16**	**(15)**	**(11)**	**9**	**121**	**757**	**609**
(3)	(3)	(41)	(52)	23	11	(1)	–	(22)	(44)	(119)	(167)
27	**34**	**28**	**27**	**(52)**	**27**	**(16)**	**(11)**	**(13)**	**77**	**638**	**442**
36	**37**	**28**	**27**	**(63)**	**16**	**(20)**	**(11)**	**(19)**	**69**	**765**	**557**
32	33	29	52	88	16	(40)	41	109	142	876	762
32	50	(309)	48	442	(30)	(274)	43	(109)	111	1,267	946
(15)	(14)	(31)	(27)	(3)	16	3	(27)	(46)	(52)	(378)	(341)
17	36	(340)	21	439	(14)	(271)	16	(155)	59	889	605
14	15	35	30	9	1	(3)	22	55	68	440	389

Condensed financial information of the segments

	Commercial Vehicles		Industrial Services		Printing Systems		Diesel Engines		Turbo-machines	
€ million	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Noncurrent assets (excl. taxes)	3,610	3,538	368	239	255	263	184	194	105	109
Inventories	1,462	1,366	754	690	493	485	486	492	121	126
Receivables	1,573	1,612	614	667	410	420	349	344	220	203
Taxes	178	168	101	101	40	24	12	18	9	7
Cash & cash equivalents and securities	24	17	545	619	284	305	114	14	55	2
Total assets	**6,847**	**6,701**	**2,382**	**2,316**	**1,482**	**1,497**	**1,145**	**1,062**	**510**	**447**
Equity	1,122	916	336	307	307	312	377	318	114	88
Pension accruals	680	644	30	232	105	246	141	125	69	65
Financial liabilities	752	962	34	125	27	89	2	43	5	35
All other liabilities and accruals	4,119	4,011	1,904	1,581	1,003	824	608	564	291	236
Taxes	174	168	78	71	40	26	17	12	31	23
Net liquid assets/ (Net financial debt)	**(728)**	**(945)**	**511**	**494**	**257**	**216**	**112**	**(29)**	**50**	**(33)**
Net sales	**7,377**	**6,799**	**2,789**	**3,185**	**1,738**	**1,620**	**1,666**	**1,421**	**694**	**659**
Cost of sales	(5,841)	(5,445)	(2,470)	(2,777)	(1,343)	(1,259)	(1,274)	(1,074)	(540)	(512)
Gross margin	**1,536**	**1,354**	**319**	**408**	**395**	**361**	**392**	**347**	**154**	**147**
Selling expenses	(463)	(453)	(130)	(123)	(131)	(148)	(122)	(123)	(60)	(59)
General administrative expenses	(352)	(291)	(99)	(97)	(78)	(89)	(63)	(68)	(35)	(36)
All other income/expenses, net	(276)	(288)	0	(116)	(133)	(121)	(90)	(101)	(16)	(16)
Net interest result of Financial Services	–	–	–	–	–	–	–	–	–	–
Net interest result of Industrial Business	(63)	(81)	(15)	(10)	(6)	(11)	(9)	(15)	(4)	(6)
EBT	**382**	**241**	**75**	**62**	**47**	**(8)**	**108**	**40**	**39**	**30**
Indicators										
ROS (%)	6.4	4.7	3.2	2.3	3.7	0.2	7.1	3.9	6.2	5.5
Net capital employed at Dec. 31[1]	2,526	2,498	82	265	155	344	411	463	154	202
Capital employed (weighted annual average)	2,622	2,550	236	212	278	450	451	507	184	230
ROCE (%)[2]	17.9	12.6	38.1	34.1	23.2	0.6	26.1	10.9	23.3	15.7
Value added	181	42	64	49	34	(47)	68	0	23	11

[1] MAN Finance: equity and ROE, respectively, instead
[2] Assets including discontinued operations

Others											
Industrial holdings		MAN Finance		Headquarters		Consolidation		Total		Group	
2005	2004	2005	2004	2005	2004	2005	2004[2)]	2005	2004	2005	2004
80	79	717	584	173	186	(313)	(186)	657	663	5,179	5,006
126	125	8	7	0	1	3	101	137	234	3,453	3,393
74	68	755	452	104	299	(313)	(344)	620	475	3,786	3,721
6	7	1	3	79	183	(37)	(13)	49	180	389	498
68	64	10	2	2,629	2,446	(2,538)	(2,708)	169	(196)	1,191	761
354	**343**	**1,491**	**1,048**	**2,985**	**3,115**	**(3,198)**	**(3,150)**	**1,632**	**1,356**	**13,998**	**13,379**
94	88	132	146	977	811	(181)	(21)	1,022	1,024	3,278	2,965
73	70	2	2	86	236	(1)	96	160	404	1,185	1,716
5	10	1,107	618	1,625	1,610	(2,539)	(2,739)	198	(501)	1,018	753
168	164	222	247	249	424	(553)	(524)	86	311	8,011	7,527
14	11	28	35	48	34	76	38	166	118	506	418
63	**54**	**(1,097)**	**(616)**	**1,004**	**836**	**1**	**31**	**(29)**	**305**	**173**	**8**
375	**362**	**300**	**289**	**2**	**2**	**(270)**	**(299)**	**407**	**354**	**14,671**	**14,038**
(301)	(287)	(232)	(220)	(2)	(1)	274	299	(261)	(209)	(11,729)	(11,276)
74	**75**	**68**	**69**	**0**	**1**	**4**	**0**	**146**	**145**	**2,942**	**2,762**
(20)	(20)	(5)	(5)	0	0	0	4	(25)	(21)	(931)	(927)
(16)	(16)	(9)	(7)	(55)	(47)	4	23	(76)	(47)	(703)	(628)
(8)	(2)	15	22	(20)	62	(23)	(38)	(36)	44	(551)	(598)
–	–	(41)	(52)	–	–	–	–	(41)	(52)	(41)	(52)
(3)	(3)	–	–	23	11	(1)	0	19	8	(78)	(115)
27	**34**	**28**	**27**	**(52)**	**27**	**(16)**	**(11)**	**(13)**	**77**	**638**	**442**
9.6	10.4	–	–	–	–	–	–	–	–	5.2	4.0
113	107	134	133	–	–	–	–	–	–	4,122	4,328
123	112	141	134	–	–	–	–	–	–	4,010	4,287
29.3	33.5	20.0	20.2	–	–	–	–	–	–	19.1	13.0
23	25	9	9	(76)	(3)	(5)	(4)	(49)	27	321	82

Segment information by regions

€ million	Germany	Other Europe	Other world	Total
2005				
Segment assets at Dec. 31	10,353	2,562	1,083	13,998
Capital expenditures	316	110	14	440
Sales	3,774	6,118	4,779	14,671
Headcount at Dec. 31	36,331	18,617	3,255	58,203
2004				
Segment assets at Dec. 31	10,469	2,226	684	13,379
Capital expenditures	282	96	11	389
Sales	3,540	5,916	4,582	14,038
Headcount at Dec. 31	37,297	18,719	2,992	59,008

See the *Business trend* chapter of the management report for a further breakdown and explanation of sales by geographical markets.

Munich, February 23, 2006

MAN AG
The Executive Board

Independent auditor's report and opinion

We have audited the consolidated financial statements (consisting of income statement, balance sheet, cash flow statement, statement of changes in equity, and notes) and the management report on the Company and the Group, all as prepared by MAN AG for the fiscal year ended December 31, 2005. The preparation of the consolidated financial statements and group management report in accordance with the IFRS, whose application is mandatory in the European Union (EU), and the additional financial-accounting provisions of Art. 315a(1) German Commercial Code ("HGB"), as well as with the additional provisions of the Company's bylaws, is the responsibility of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the consolidated financial statements and group management report.

We have conducted our annual group audit in accordance with Art. 317 HGB 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 that any misstatement or fraud which has a material impact on the view of the net assets, financial position and results of operations as presented by the consolidated financial statements in accordance with accounting principles generally accepted in Germany and by the group management report is identified. 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, largely on a test basis, the accounting-related internal control system's effectiveness and the evidence supporting the amounts and disclosures in the consolidated financial statements and group management report. An audit also includes assessing the financial statements of companies included in the consolidated financial statements, the definition of the consolidation group, the accounting principles used, and significant estimates made, by the Company's legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any objections or exceptions.

It is our opinion that, based on our audit conclusions, the consolidated financial statements are in conformity with the IFRS, whose application is mandatory in the EU, and the additional financial-accounting provisions of Art. 315a(1) HGB, as well as with the additional provisions of the Company's bylaws, and, with due regard to these standards, regulations and provisions, present a true and fair view of the Group's net assets, financial position and results of operations. The group management report is in conformity with the consolidated financial statements and presents fairly, in all material respects, both the Group's position and the risks and rewards inherent in its future development.

Munich, March 3, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Hoyos	Dr. Dauner
Wirtschaftsprüfer	Wirtschaftsprüfer

Supervisory Board – outside appointments

1 **Dr.-Ing. Ekkehard D. Schulz**
Düsseldorf,
Chairman of the Executive Board
of ThyssenKrupp AG
Chairman (appointed June 3, 2005)
a) RAG AG (additional Deputy Chairman)
Axa Konzern AG
Bayer AG
Commerzbank AG
Deutsche Bahn AG
TUI AG
b) ThyssenKrupp Automotive AG (Chairman)
ThyssenKrupp Elevator AG (Chairman)
ThyssenKrupp Services AG (Chairman)

2 **Dr. Eng. h. c. Volker Jung**
Munich,
former member of the Executive Board
of Siemens AG,
Chairman
(retired June 3, 2005)
a) Direktanlagebank AG
Messe München GmbH
Vattenfall Europe AG
c) INTRACOM S. A., Greece

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

4 **Prof. Dr.-Ing. Joachim Milberg**
Baldham,
Chairman of the Supervisory Board
of BMW AG
Deputy Chairman (appointed June 3, 2005)
a) BMW AG (Chairman)
Allianz Versicherungs-AG
Bertelsmann AG
FESTO AG
Leipziger Messe GmbH
TÜV Süddeutschland Holding AG
c) John Deere & Company

5 **Dr. oec. Paul Achleitner**
Munich,
Member of the Executive Board of Allianz AG,
Deputy Chairman
(retired June 3, 2005)
a) Bayer AG
RWE AG
b) Allianz Immobilien GmbH (Chairman)
Allianz Dresdner Asset Management
GmbH (ADAM)

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

7 **Michael Behrendt**
Hamburg,
Chairman of the Executive Board
of Hapag-Lloyd AG
a) Barmenia Allgemeine Versicherungs-AG
Barmenia Krankenversicherung a. G.
Barmenia Lebensversicherung a. G.
Esso Deutschland GmbH
ExxonMobil Central Europe
Holding GmbH
Hamburgische Staatsoper GmbH
b) Hapag-Lloyd Container Linie GmbH
(Chairman)
d) CP Ships Ltd.

8 **Dr.-Ing. Herbert H. Demel**
Lannach, Austria
Chairman of the Executive Board
of Magna Powertrain AG
(appointed June 3, 2005)
a) IWKA AG

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

10 **Jürgen Dorn***
Munich,
Chairman of the Central Works Council
at MAN Nutzfahrzeuge AG
a) MAN Nutzfahrzeuge AG

11 **Klaus Eberhardt**
Gerlingen,
Chairman of the Executive Board
of Rheinmetall AG
(appointed June 3, 2005)
b) Kolbenschmidt Pierburg AG (Chairman)
Rheinmetall Defence Electronics GmbH
(Chairman)
Rheinmetall Landsysteme GmbH (Chairman)
Rheinmetall Waffe Munition GmbH (Chairman)
c) Hirschmann Electronics Holding S.A.
(Chairman)
d) Nitrochemie AG (President)
Nitrochemie Wimmis AG (President)
Oerlikon Contraves AG (President)

12 **Reinhard Frech***
Augsburg,
Head of Web-fed Production and Materials
Management
(Purchasing)
(appointed July 1, 2005)
a) MAN Roland Druckmaschinen AG

13 **Dr. rer. nat. Hubertus von Grünberg**
Hanover,
Chairman of the Supervisory Board
of Continental AG
a) Continental AG (Chairman)
Allianz Versicherungs-AG
Deutsche Telekom AG
c) Schindler Holding AG

14 **Jürgen Hahn***
Essen,
commercial employee
at MAN Ferrostaal AG
a) MAN Ferrostaal AG

15 **Dr. jur. Heiner Hasford**
Munich,
Member of the Executive Board of
Münchener Rückversicherungs-Gesellschaft
(retired June 3, 2005)
a) Europäische Reiseversicherung AG
(Chairman)
Commerzbank AG
Nürnberger Beteiligungs-AG
WMF Württembergische Metallwaren-
fabrik AG
b) D.A.S. Deutscher Automobil Schutz –
Allgemeine Rechtsschutz-Versicherungs-AG
ERGO Versicherungsgruppe AG
Victoria Lebensversicherung AG
Victoria Versicherung AG
d) American Re Corporation

16 **Dr. phil. Klaus Heimann***
Frankfurt/Main,
Secretary of the German Metalworkers Union
a) Krones AG

17 **Dr. jur. Karl-Ludwig Kley**
Cologne,
Member of the Executive Board of
Deutsche Lufthansa AG
(appointed June 3, 2005)
a) Gerling Allgemeine Versicherungs-AG
Merck KGaA
Thomas Cook AG
Vattenfall Europe AG
b) Delvag Luftfahrt-AG (Vors.)
Lufthansa AirPlus Servicekarten GmbH
(Vors.)
LSG Lufthansa Service Holding AG
Lufthansa Cargo AG
Lufthansa Technik AG
c) Amadeus Global Travel Distribution S.A.
KG Allgemeine Leasing GmbH & Co.

18 **Prof. Dr. rer. pol. Renate Köcher**
Constance,
Managing Director of the Allensbach Institute for Public Opinion Research
a) Allianz AG
BASF AG
Infineon Technologies AG

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

20 **Andreas de Maizière**
Bad Homburg,
former Member of the Executive Board of Commerzbank AG
(retired June 3, 2005)
a) Rheinische Bodenverwaltung AG (Chairman)
ABB AG
Borgers AG
RWE Power AG
STEAG AG
ThyssenKrupp Stahl AG
b) Hypothekenbank in Essen AG (Chairman)
c) Arenberg-Schleiden GmbH (Chairman)
BVV Versicherungsverein des Bankgewerbes a. G.

21 **Thomas Otto***
Ottweiler,
Secretary of the German Metalworkers Union
a) MAN Nutzfahrzeuge AG
MAN Nutzfahrzeuge Vertrieb GmbH
SMS GmbH

22 **Lothar Pohlmann***
Oberhausen,
Chairman of the General Works Council at MAN AG and Chairman of the Works Council at MAN TURBO AG, Sterkrade Plant

23 **Dr.-Ing. E. h. Rudolf Rupprecht**
Augsburg,
former Chairman of the Executive Board of MAN AG
(appointed June 3, 2005)
a) SMS GmbH (Chairman)
Bavarian State Forests AöR
KME AG
Salzgitter AG
c) Karl Augustin GmbH
Novelis Inc.

24 **Ralf Simon***
Munich,
Senior Manager at MAN Nutzfahrzeuge AG
(retired June 30, 2005)
a) Gesellschaft zur Altlastensanierung in Bayern mbH

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

* Elected by Group employees

At March 1, 2006 or date of retirement

a) Supervisory board appointments in German companies
b) Group mandates
c) Appointments to comparable boards inside and outside Germany
d) Appointments to comparable boards outside Germany (Group mandates)

Supervisory Board Committees

1 Standing Committee

Dr.-Ing. Ekkehard D. Schulz (Chairman)
Dr. jur. Karl-Ludwig Kley
Prof. Dr.-Ing. Joachim Milberg
Lothar Pohlmann
Dr. rer. pol. Gerlinde Strauss-Wieczorek

2 Executive Personnel Committee

Dr.-Ing. Ekkehard D. Schulz (Chairman)
Prof. Dr.-Ing. Joachim Milberg
Dr. rer. pol. Gerlinde Strauss-Wieczorek

3 Audit Committee

Dr. jur. Karl-Ludwig Kley (Chairman)
Prof. Dr.-Ing. Joachim Milberg
Lothar Pohlmann
Dr. rer. pol. Gerlinde Strauss-Wieczorek
Dr.-Ing. Ekkehard D. Schulz

Executive Board – outside appointments

1 **Dipl.-Ing. Håkan Samuelsson**
Munich,
Chairman
b) MAN Nutzfahrzeuge AG (Chairman)
MAN Ferrostaal AG (Chairman)
MAN Roland Druckmaschinen AG (Chairman)
MAN B&W Diesel AG (Chairman)
MAN TURBO AG (Chairman)
RENK Aktiengesellschaft (Chairman)
NEOMAN Bus GmbH (Chairman)
c) MAN B&W Diesel A/S, Denmark

2 **Dr. rer. pol. Ferdinand Graf von Ballestrem**
Munich
(retired Dec. 31, 2005)
a) Bayerische Versicherungsbank AG
Hypo Real Estate Holding AG
SMS Demag AG
b) RENK Aktiengesellschaft (Deputy Chairman)
MAN Roland Druckmaschinen AG
MAN Nutzfahrzeuge Vertrieb GmbH
c) MAN Capital Corporation, USA (Chairman)
MAN Financial Services plc.,
United Kingdom (Chairman)

3 **Prof. Dipl.-Ing. (FH) Gerd Finkbeiner**
Neusäß
b) MAN Nutzfahrzeuge AG
RENK Aktiengesellschaft
c) MAN Roland CEE AG, Austria (Chairman)
MAN Roland Inc., USA (Chairman)
MAN Roland (China) Ltd., China (Chairman)
MAN Roland Western Europe Group B. V.,
The Netherlands (Chairman)
Votra S. A., Switzerland (Chairman)

4 **Karlheinz Hornung**
Grünwald
b) MAN Nutzfahrzeuge AG
MAN Ferrostaal AG
MAN Roland Druckmaschinen AG
MAN B&W Diesel AG
MAN TURBO AG
c) MAN Capital Corporation, USA (Chairman)
MAN B&W Diesel A/S, Denmark

5 **Dr. jur. Matthias Mitscherlich**
Mülheim a. d. Ruhr
a) Coface Holding AG
Coface Kreditversicherung AG
b) MAN TURBO AG (Deputy Chairman)
MAN Roland Druckmaschinen AG
MAN Ferrostaal Power Industry GmbH

6 **Dr. jur. Hans-Jürgen Schulte LL.M.**
Augsburg
(retired Jan. 31, 2005)
b) Drei Mohren AG (Chairman)
MAN Nutzfahrzeuge AG
RENK Aktiengesellschaft
c) S.E.M.T. Pielstick, France (Chairman)
MAN B&W Diesel Ltd., United Kingdom
(Chairman)

7 **Dipl.-Ökonom Anton Weinmann**
Landensberg
b) MAN Nutzfahrzeuge Vertrieb GmbH
(Chairman)
MAN B&W Diesel AG
RENK Aktiengesellschaft
NEOMAN Bus GmbH
NEOPLAN Bus GmbH
c) MAN Nutzfahrzeuge Austria AG
(Deputy Chairman)
MAN B&W Diesel A/S, Denmark

8 **Dr. rer. nat. Wolfgang Brunn**
Gröbenzell
(Deputy)
(retired Dec. 31, 2005)
a) MT Aerospace AG (Chairman)
b) MAN TURBO AG

At March 1, 2006 or date of retirement

a) Supervisory board appointments in German companies
b) Group mandates
c) Appointments to comparable boards outside Germany
(Group mandates)

Executive and Management Boards of Group Companies

1 **MAN Nutzfahrzeuge AG, Munich**
Dipl.-Ökonom Anton Weinmann, Chairman
Prof. Dr.-Ing. Franz Breun
Peter Erichreinecke
Dr.-Ing. Georg Pachta-Reyhofen
Dipl.-Ing. Lars Wrebo

2 **MAN Ferrostaal AG, Essen**
Dr. jur. Matthias Mitscherlich, Chairman
Dipl.-Ing. Jens Gesinn
Helmut Julius
Dr.-Ing. Wolfgang Knothe

3 **MAN Roland Druckmaschinen AG, Offenbach**
Prof. Dipl.-Ing. (FH) Gerd Finkbeiner, Chairman
Dr. oec. publ. Ingo Koch
Dr. Markus Rall
Dipl.-Ing.(FH) Paul Steidle

4 **MAN B&W Diesel AG, Augsburg**
Dipl.-Ing. Fritz Pape
Dr.-Ing. Peter Sunn Pedersen
Tage Reinert
Dr.-Ing. Stefan Spindler
Dr.-Ing. Stephan Timmermann

5 **MAN TURBO AG, Oberhausen**
Jürgen Maus, Chairman
Dr.-Ing. Hans O. Jeske
Dr. rer. oec. Gerhard Willi Reiff

At March 1, 2006

Abridged List of Companies Consolidated

At 31 December 2005

	Shareholding %	Sales € million	Employees at Dec. 31, 2005
MAN Nutzfahrzeuge Aktiengesellschaft, Munich	**100**	**5,355**	**12,431**
MAN Nutzfahrzeuge Österreich AG, Steyr, Austria	100	1,087	3,153
NEOMAN Bus GmbH, Salzgitter, Germany	100	790	1 477
NEOMAN Bus Vertrieb GmbH, Ismaning, Germany	100	321	153
NEOPLAN Bus GmbH, Stuttgart, Germany	100	207	933
MAN Türkiye A.S., Akyurt Ankara, Turkey	100	241	2,400
MAN STAR Trucks & Busses Sp. z o.o., Tarnowo Podgórne, Poland	100	228	2,626
MAN Automotive (South Africa) (Pty.) Ltd., Johannesburg, South Africa[1)]	100	276	689
MAN Nutzfahrzeuge Vertrieb GmbH, Munich, Germany	100	1,855	4,652
MAN ERF UK Ltd., Swindon, Wiltshire, United Kingdom	100	668	1,087
MAN Nutzfahrzeuge Vertrieb OHG, Vienna, Austria	100	436	875
MAN Vehiculos Industriales (Espana) S.A., Coslada (Madrid), Spain	100	505	489
MAN Camions et Bus S.A., Every Cedex, France	100	391	500
MAN Veicoli Industriali S.p.A., Dossobuono di Villafranca (Verona), Italy	100	254	116
MAN Truck & Bus S.A., Kobbegem (Brussels), Belgium[1)]	100	151	120
MAN Last og Bus A/S, Glostrup, Denmark	100	121	183
MAN Nutzfahrzeuge (Schweiz) AG, Otelfingen, Switzerland	100	120	117
MAN Last og Buss A/S, Lorenskog, Norway	100	105	199
MAN Veiculos Industriais (Portugal) S.U. Lda., Algés (Lisbon), Portugal	100	69	54
MAN Engines & Components Inc., Pompano Beach, USA	100[2)]	44	40
MAN uzitková vozidla Ceská republika spol.s.r.o., Cestlice, Czech Republic	100	92	72
MAN Kamion és Busz Kereskedelmi Kft., Dunaharaszti, Hungary	100	51	115
MAN Gospodarska vozila Slovenija d.o.o., Ljubljana, Slovenia	100	34	34
MAN STAR Trucks Sp. z o.o., Nadarzyn, Poland	100	216	273
MAN Úzitkové Vozidlá Slovakia s.r.o., Bratislava, Slovakia	100	25	44
NEOMAN Italia S.r.l., Agata Bolognese, Italy	100	51	27
NEOPLAN Omnibus GmbH, Plauen, Germany	84	49	295
MAN Kamyon ve Otobüs Ticaret A.S. Ankara, Turkey	100	408	180
MAN Ferrostaal Aktiengesellschaft, Essen	**100**	**1,483**	**726**
MAN Ferrostaal Power Industry GmbH, Essen, Germany	100	115	225
MAN Ferrostaal Industrieanlagen GmbH, Geisenheim, Germany	100	97	202
MAN TAKRAF Fördertechnik GmbH, Leipzig, Germany[1)]	100[3)]	140	464
DSD de Venezuela C.A., Caracas, Venezuela	100	41	98
DSD Construcciones y Montajes S.A., Santiago, Chile	100	39	113
Intergrafica Print & Pack Pty. Ltd., Alexandria, Australia	100	35	56
Graphic Systems Australasia Pty. Ltd., Silverwater, Australia	100	20	38
Intermesa Trading S.A., Rio de Janeiro, Brazil[1)]	48,5	223	32
MAN Ferrostaal Incorporated, Houston, USA[1)]	100[2)]	790	478
MAN Ferrostaal Industrie- und System-Logistik GmbH, Essen, Germany[1)]	100	124	1,061
MAN Ferrostaal Piping Supply GmbH, Essen, Germany[1)]	100	98	91

At 31 December 2005

	Shareholding %	Sales € million	Employees at Dec. 31, 2005
MAN Roland Druckmaschinen AG, Offenbach	**100**	**1,358**	**6,845**
MAN Roland Vertrieb und Service GmbH, Mühlheim/Main, Germany	100	59	130
MAN Roland Vertriebsgesellschaft Bayern mbH, Munich, Germany	100	46	62
MAN Roland Western Europe Group B.V., Amsterdam, The Netherlands[1]	100[4]	336	724
MAN Roland Nederland B.V., Amsterdam, The Netherlands	100	49	137
MAN Roland Belgium N.V., Wemmel, Belgium	100	59	119
MAN Roland Great Britain Limited, Mitcham, United Kingdom	100	58	135
MAN Roland France SA, Roissy Charles de Gaulle Cedex, France	100	44	88
MAN Roland Swiss AG, Kirchberg, Switzerland	100	33	66
MAN Roland Italia SpA, Segrate Milan, Italy	100	52	76
MAN Roland Sverige AG, Trollhättan, Sweden[1]	100	32	49
MAN Roland Finland Oy, Vantaa, Finland	100	10	31
MAN Roland Danmark A/S, Vaerloese, Denmark	100	16	24
MAN Roland CEE AG, Vienna, Austria[1]	100	62	157
MAN Roland Inc., Westmont, USA[1]	100[2]	297	267
MAN Roland (China) Limited, Hongkong, China[1]	100	64	180
DIC*MANROLAND Co.Ltd., Tokyo, Japan	80	20	67
ppi Media GmbH, Hamburg, Germany	74.8	15	129
MAN B&W Diesel Aktiengesellschaft, Augsburg	**100**	**666**	**2,498**
MAN B&W Diesel A/S, Copenhagen, Denmark	100	714	2,344
MAN B&W Diesel Ltd., Stockport, United Kingdom	100	104	469
S.E.M.T. Pielstick, Villepinte, France	66.6	154	673
MAN B&W Diesel (Singapore) Pte. Ltd., Singapore	100	58	150
PBS Turbo s.r.o., Velka Bites, Czech Republic	100	13	157
MAN B&W Diesel Canada Ltd., Oakville/Canada	100	26	22
MAN B&W Diesel Australia Pty. Ltd., North Ryde, Australia	100	23	35
MAN TURBO AG, Oberhausen	**100**	**456**	**1,632**
MAN TURBO AG Schweiz, Zurich, Switzerland	100	209	576
MAN TURBO S.r.l. De Pretto, Schio, Italy	100	20	200
MAN TURBO Inc. USA, Houston, USA	100[2]	49	19
MAN TURBO South Africa (Pty) Ltd., Elandsfontain, South Africa	100	12	49
RENK Aktiengesellschaft, Augsburg	**76**	**298**	**1,426**
MAN DWE GmbH, Deggendorf	**100**	**62**	**379**
MAN Finance International GmbH, Munich[1]	**100**	**300**	**124**

[1] Sales and employees include companies under operative management.
[2] Held by MAN Capital Corporation, New York, USA.
[3] Held by MAN AG.
[4] 7% share held by Ferrostaal Piping Supply B.V., Hooge Zwaluwe, The Netherlands.

Glossary

C

Capital employed (CE)

The Group’s CE is determined on the basis of the source and use of funds shown in the balance sheet and covers equity, pension accruals and financial liabilities, less the debt-funded volume of Financial Services. A business area’s CE is predicated on the assets side and corresponds to total assets excluding financial and tax assets, less other accruals and nonfinancial liabilities.

F

Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Free cash flow

Aggregate cash flows from operating and investing activities. The free cash flow shows the financial funds generated by a company in a fiscal year.

I

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.

N

Net liquid assets

Net liquid assets equal cash & cash equivalents plus securities less financial liabilities.

O

Operating profit

Indicator to assess and control the profitability of the MAN Group’s business areas. The operating profit of an Industrial Business (IB) company equals EBIT while for Financial Services, it corresponds to EBT. One-time factors or effects are eliminated.

Operating profit =
$EBIT_{\text{Industrial Business}} + EBT_{\text{Financal Services}}$
$\pm$ one-time factors

Other comprehensive income (OCI)

Other comprehensive income is an equity component that includes gains and losses which are recognized in the balance sheet yet unrealized in the income statement, mainly from the statement at fair value of securities and hedges.

P

Percentage-of-completion method (PoC)
Accounting method based on IAS 11, requiring sales revenues, contract costs and the profit or loss from contracts for customized manufacture or comparable services to be recognized in the financial statements according 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 expected future pay and pension trends are accounted for in addition to the vested pension rights and entitlements existing at year-end.

R

ROCE (return on capital employed)
Ratio of operating profit to average capital employed (CE).
ROCE = operating profit ÷ CE

ROE
Return on equity; for Financial Services, its
ROE = EBT ÷ equity (excl. OCi)

ROS
Return on sales; the margin returned by the operating profit on net sales.
ROS = operating profit ÷ net sales

V

Value added (VA)
Indicates whether the MAN Group and its business areas have earned their cost of capital (CC) and added value over and above CC.
VA = (ROCE – WACC) x CE

W

WACC
Weighted average cost of capital, for the MAN Group defined on a long-range basis at 11 percent (pretax); the equity portion is stated at fair value, the debt portion comprising pension accruals and financial liabilities.

MAN Group Seven-Year Financial Summary

€ million	2005	2004	2003	2002	2001	SFY2000 [1]	99/00
Order intake[3]	**17,994**	**15,645**	**13,744**	**15,720**	**15,678**	**7,773**	**15,640**
from Germany	4,065	3,850	3,943	3,862	4,026	2,195	4,623
from abroad	13,929	11,795	9,801	11,858	11,652	5,578	11,017
Order intake by business area[3]							
Commercial Vehicles	9,434	7,589	6,772	6,525	6,272	3,114	6,274
Industrial Services	3,077	3,508	2,738	3,178	2,737	1,359	2,927
Printing Systems	2,109	1,885	1,575	1,542	1,993	1,126	2,095
Diesel Engines	2,203	1,872	1,460	1,363	1,489	861	1,192
Turbomachines	850	675	658	539	556	161	360
Industrial holdings	426	338	894	818	763	355	840
Financial Services[3]	325	253	607	602	635	183	267
SMS Group	–	–	–	2,001	2,117	907	2,068
Sales[3]	**14,671**	**14,038**	**13,546**	**16,040**	**16,300**	**7,524**	**14,581**
in Germany	3,774	3,540	3,792	4,212	4,457	2,231	4,418
abroad	10,897	10,498	9,754	11,828	11,843	5,293	10,163
Sales by business area[3]							
Commercial Vehicles[3]	7,377	6,799	6,707	6,564	6,741	3,048	5,755
Industrial Services	2,789	3,185	2,880	2,916	2,855	1,410	2,541
Printing Systems	1,738	1,620	1,516	1,808	2,081	946	1,848
Diesel Engines	1,666	1,421	1,312	1,408	1,415	665	1,106
Turbomachines	694	659	567	530	555	161	360
Industrial holdings	375	362	837	843	778	369	733
Financial Services[3]	300	289	627	628	513	183	267
SMS Group	–	–	–	2,190	2,239	1,013	2,353
Order backlog[2]	**10,893**	**7,954**	**7,363**	**9,597**	**10,313**	**10,962**	**10,643**
Germany	2,025	1,815	1,891	2,035	2,537	2,976	2,895
abroad	8,868	6,139	5,472	7,562	7,776	7,986	7,748
Headcount[2]	**58,203**	**59,008**	**64,158**	**75,054**	**77,606**	**76,604**	**74,324**
in Germany	36,331	37,297	41,497	48,863	51,240	50,611	49,487
abroad	21,872	21,711	22,661	26,191	26,366	25,993	24,837
Annual average headcount	58,888	60,371	65,521	76,346	78,608	76,049	71,239
Loaned employees[2]	2,573	2,317	3,749	2,253	1,715	2,822	2,648
MAN stock data							
Common stock[2] (€)	45.08	28.34	24.05	13.15	23.75	27.10	31.66
Common stock, annual high (€)	45.24	32.23	24.15	30.25	34.20	34.41	40.01
Common stock, annual low (€)	29.00	24.33	12.09	10.65	16.96	26.52	28.20
Common stock, PER[2]	14.8	13.6	15.6	14.3	23.5	–	12.6
Preferred stock[2] (in €)	41.00	24.75	19.80	9.90	18.00	21.00	21.45
Preferred stock, annual high (€)	41.00	29.59	20.49	26.10	26.10	24.68	25.01
Preferred stock, annual low (€)	25.44	20.00	10.30	8.20	12.95	20.50	17.90
Preferred stock, PER[2]	13.5	11.9	12.9	10.8	17.8	–	8.5
Dividend per share (€)	1.35	1.05	0.75	0.60	0.60	0.50	1.00
Earnings per share (EpS) acc. to IAS 33 (€)[3]	3.04	2.08	1.54	0.92	1.01	1.04	2.52
Cash earnings per share (€)	5.90	5.00	5.50	5.50	5.30	3.30	6.70
Equity per share (€)[3]	20.70	18.80	18.50	17.90	17.30	17.30	17.20

€ million	2005	2004	2003	2002	2001	SFY2000[1]	99/00
Fixed/noncurrent assets[3]	5,535	5,400	3,932	4,318	4,369	4,172	3,947
Inventories	3,453	3,393	3,107	3,774	4,618	4,532	4,353
Other current assets[3]	3,819	3,825	3,568	4,002	4,204	4,183	4,064
Securities, cash & cash equivalents	1,191	761	548	1,277	1,481	1,442	1,365
Equity[3]	3,278	2,965	2,784	2,891	2,862	2,964	2,953
Pension accruals	1,185	1,716	1,681	2,053	1,997	1,925	1,884
Financial liabilities (noncurrent/current)	1,018	753	987	1,538	1,801	1,728	936
Prepayments received	1,740	1,399	1,201	1,679	2,582	2,560	2,536
All other liabilities and accruals[3]	6,777	6,546	4,502	5,211	5,430	5,152	5,420
Total assets	**13,998**	**13,379**	**11,155**	**13,371**	**14,672**	**14,328**	**13,729**
Net sales[3]	**14,671**	**14,038**	**13,546**	**16,040**	**16,300**	**7,524**	**14,581**
Cost of sales[3]	(1,729)	(11,276)	(11,067)	(13,365)	(13,625)	(6,135)	(11,915)
Gross margin[3]	**2,942**	**2,762**	**2,479**	**2,675**	**2,675**	**1,389**	**2,666**
All other income/expenses, net	(2,136)	(2,153)	(2,036)	(2,284)	(2,259)	(1,051)	(1,950)
Net interest result of Financial Services	(41)	(52)	(60)	(67)	(52)	(30)	(34)
Operating profit[3]	**765**	**557**	**383**	**324**	**364**	**308**	**682**
Net result from one-time factors	(49)	–	–	–	–	–	–
Net interest result of Industrial Business	(78)	(115)	(122)	(105)	(151)	(44)	(82)
EBT[3]	**638**	**442**	**261**	**219**	**213**	**264**	**600**
Income taxes[3]	(181)	(122)	(69)	(72)	(62)	(87)	(244)
Net result of discontinued operations	15	(2)	43	0	0	0	68
Net income[3]	**472**	**318**	**235**	**147**	**151**	**177**	**424**
Minority interests	(10)	(15)	(8)	(12)	0	(17)	(35)
Transfer to reserves[3]	(263)	(149)	(117)	(47)	(63)	(83)	(235)
Total dividend of MAN AG	**199**	**154**	**153**	**88**	**88**	**77**	**222**
Capital expenditures and funding							
Tangible and intangible assets	412	357	402	463	554	294	537
Investments	28	32	18	62	223	24	283
R&D expenditures	499	476	520	580	620	284	527
Amortization/depreciation/write-down	378	402	373	500	471	203	374
Cash earnings[3]	876	762	768	885	822	552	1117
Cash flow from operating activities[3]	1,267	946	906	697	697	401	99
Cash flow from investing activities[3]	(378)	(341)	(317)	(590)	(574)	(992)	(561)
Free cash flow	889	605	589	107	123	(591)	(462)
Key indicators/ratios							
ROS (%)[3]	5.2	4.0	2.8	2.0	2.2	4.1	4.7
ROCE (%)[3]	19.1	13.0	8.4	7.1	7.7	–	–
Value added in € million[3]	321	82	(121)	–	–	–	–

[1] Short fiscal year (July 1 to Dec. 31, 2000; rates of return annualized)
[2] at June 30 or Dec. 31
Up to 2002 incl. the SMS Group (disposed of in 2003)
As from 2003 according to the new IAS 1 balance sheet classification
[3] As from 2004 changed accounting policies for commercial vehicles sold with buyback obligation (recognized as operating leases)

Financial Calendar

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Report on first quarter of 2006	May 4, 2006
Annual general meeting on fiscal year 2006	May 19, 2006
Interim Report 2006	August 1, 2006
Capital Market Day	October 4 + 5, 2006
Report on third quarter of 2006	November 2, 2006
Annual press conference on 2006	March 7, 2007
Analysts' conference on 2006	March 7, 2007
Publication of the 2006 Annual Report on the Internet	March 20, 2007
Report on first quarter of 2007	May 3, 2007
Annual general meeting on fiscal year 2006	May 10, 2007
Interim Report 2007	August 2, 2007
Report on third quarter of 2007	November 6, 2007

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