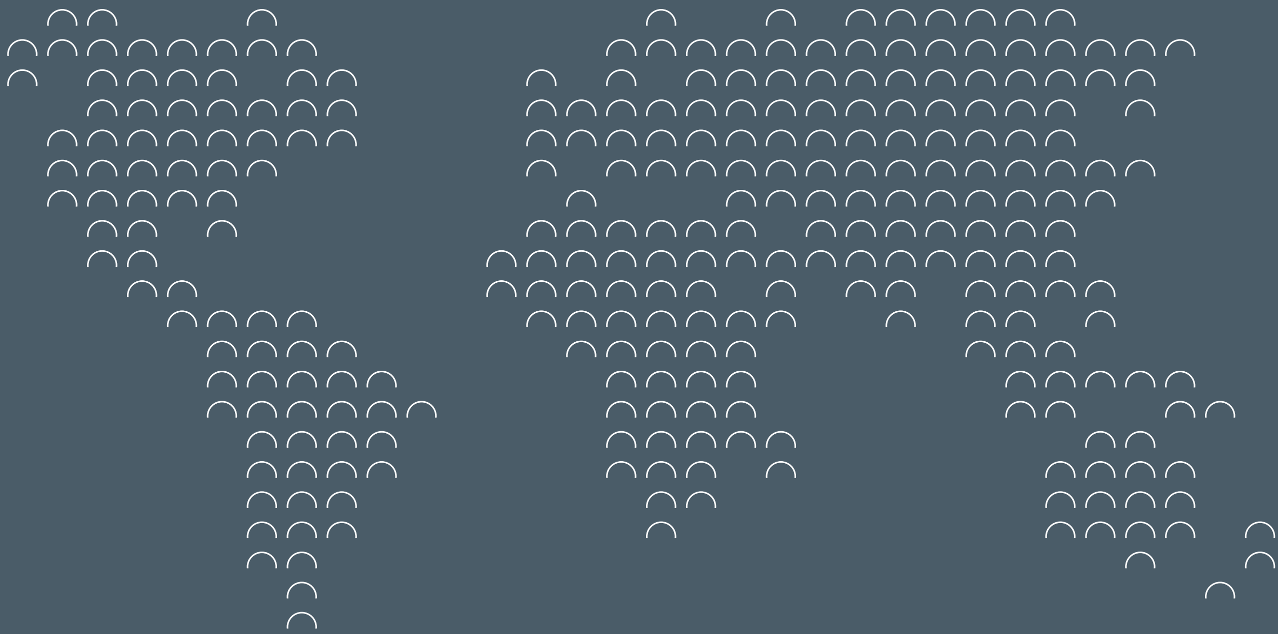
Annual Report
MAN AG
2006



ENGINEERING THE FUTURE

At a glance

€ million	2006	2005 **)	Change in %
Order intake	16,567	14,338	+16
Germany	4,151	3,373	+23
abroad	12,416	10,965	+13
Sales	13,049	11,379	+15
Germany	3,394	3,103	+9
abroad	9,655	8,276	+17
Order backlog *)	11,298	8,496	+33
Headcount *)	50,290	49,161	+2
Germany	29,399	28,978	+1
abroad	20,891	20,183	+4
Headcount, incl. loaned/temporary employees *)	53,715	51,412	+4
Germany	31,368	30,275	+4
abroad	22,347	21,137	+6

			Change in € mill.
Operating profit	1,105	674	+431
EBT (earnings before taxes)	1,023	575	+448
Net income	925	472	+453
EpS (earnings per share) of continuing operations (€)	5.05	2.75	+2.30
Dividend per share, incl. bonus (€) ***)	2.00	1.35	+0.65
ROS (%)	8.5	5.9	–
ROCE (%)	28.0	19.1	–
MAN value added (MAN VA)	717	321	+396

Capital outlays	1,660	404	+1,256
Amortization/depreciation/write-down of fixed assets	328	335	-7
R&D expenditures	396	385	+11
Cash earnings	963	876	+87
Cash flow from operating activities	777	1,267	-490
Cash flow from investing activities	(1,329)	(378)	-951
Free cash flow	(552)	889	-1,441
Cash and cash equivalents *)	1,162	1,019	+143
Net liquid assets/(Net financial debt) *)	(946)	173	-1,119
Equity *)	3,779	3,025	+754

*) Year-on-year as of December 31, 2006 vs. 2005
**) 2005, excluding the discontinued Printing Systems and Steel Trade operations
***) 2006: proposed dividend €1.50 plus €0.50 bonus

The MAN Group

MAN Nutzfahrzeuge

is the biggest among the MAN Group companies and one of the leading suppliers of commercial vehicles and transport solutions.
- Trucks from 7.5 to 50 t for every application
- Buses and coaches for regular services and luxury tourist travel
- All-in, all-round vehicle services
- Vehicle, marine and industrial engines

MAN Nutzfahrzeuge Group		
€ million	**2006**	**2005**
Order intake	10,103	9,434
Sales	8,685	7 377
Operating profit[1]	698	497
Headcount at Dec. 31	34,040	33,368
ROS[1] (%)	8.0	6.7
ROCE (%)	26.8	17.9

[1] including results from finance

MAN Diesel

is the world leader in two-stroke marine main engines and among the leaders in the global market for large four-stroke diesel engines.
- Two-stroke diesel engines for marine and power plant applications
- Four-stroke diesel engines for marine propulsion systems, onboard power generation, and power plants
- Combustion ignition and spark-ignited engines for stationary power applications, on shore and offshore
- Exhaust-driven turbochargers and propulsion systems
- MAN Diesel PrimeServ: worldwide aftermarket services

MAN Diesel Group		
€ million	**2006**	**2005**
Order intake	2,619	2,203
Sales	1,802	1,666
Operating profit	229	117
Headcount at Dec. 31	6,408	6,423
ROS (%)	12.7	7.1
ROCE (%)	46.6	22.8

MAN TURBO

is among the worldwide leading manufacturers of thermal turbomachines; it has production plants in Germany, Switzerland, and Italy.
- Broad product range of compressors, turbines, and chemical reactors
- Engineering, manufacture, installation and servicing of complete machine lines and complexes for the oil and gas sector, primary materials industry, and for power generation
- Worldwide unique center for assembling and testing machine lines of up to 1,000 t

MAN TURBO Group		
€ million	**2006**	**2005**
Order intake	1,498	850
Sales	908	694
Operating profit	71	43
Headcount at Dec. 31	3,257	2,476
ROS (%)	7.8	6.2
ROCE (%)	30.5	18.5

MAN Ferrostaal

is a worldwide supplier of industrial services.
- Foremost prime contractor for international petrochemical, oil and gas, energy, and fuel complexes. Project development, project management and financing arrangements for turnkey industrial plants.
- Sales and service organization for manufacturers of transport, infrastructure, printing and specialty equipment. Automotive industry services: just-in-sequence preassembly of complete modules.
- Service and sales platform for the MAN Group.

MAN Ferrostaal Group		
€ million	**2006**	**2005**
Order intake	1,982	1,745
Sales	1,379	1,414
Operating profit	119	64
Headcount at Dec. 31	4,290	4,563
ROS (%)	8.6	4.5
ROCE (%)	31.2	10.9

The MAN Group

MAN is a leading European motor vehicle, engine and mechanical engineering group with annual sales of around €13 billion. MAN manufactures trucks, buses/coaches, diesel engines and turbo machinery besides providing industrial services. The Group has a global workforce of around 50,000. In their respective markets, MAN's business areas command foremost positions. MAN AG, Munich, is listed in the DAX index of Germany's 30 leading stock corporations

2006 was the best year in the company's history

Performance – Double-digit growth in new orders (+16%) and sales (+15%) resulted in our production facilities operating at full capacity in addition to a high order backlog (+33%). The operating profit increased by 64% to €1.1 billion. The ROS of 8.5% exceeded the target of 6.0% for the first time.

Focus – Concentration on four core areas of Transport-Related Engineering; selling off Printing Systems.

Expansion – With the construction of new plants in Poland, India, and Mexico, we are on track in regard to growth and internationalization.

Initiative – Having found acceptance for the industrial concept of merging with Scania, MAN is seizing the initiative to pursue consolidation in the commercial vehicles sector.


MAN

Contents

Håkan Samuelsson,
Chairman of the Executive Board.

Letter to our Shareholders

In 2006, your company was one of the most successful in the DAX in terms of growth, earnings development, and stock market performance. Some of the benchmarks achieved include a 15% growth in sales, an operating profit of €1.1 billion, a profit margin now at 8.5%, a return on capital employed of 28%, as well as an increase in employment in tandem with considerably higher productivity. Over the course of 2006, the share price rose to five times the level of 2002. This was obviously thanks to a worldwide economic upswing, but our internal measures to increase productivity and our focus on particularly strong, transport-related activities also played a part. This is why we are proposing to the general assembly of shareholders that the dividend payout to you as our shareholder be increased to a total of €2.00 per share.

The MAN Group got off to a strong start this year. Coming off a record order volume of €11.3 billion in 2006, this year has begun with a very high order intake. This is grounds for us to be optimistic about the future. For 2007, we are expecting another 5% increase in sales and another above-average increase in operating results to a return on sales of 9%.

A year ago in our annual report, I explained some of the changes that we had made to the company: selling off peripheral activities and implementing our new Industrial Governance system, which sets out principles aimed at significantly improving the performance of every MAN company. Essentially, they state that there will be no cross-subsidies in the Group, losses will not be tolerated, and every company will be judged against the best in its industry. Consistent compliance with these principles was a major factor in successfully developing our business.

In early 2006, the Executive Board laid down the structural concept for the MAN Group. It is to focus on the growth markets in transportation, drivetrain technology, and energy—in a nutshell, "Transport-Related Engineering." Accordingly, we decided in spring to sell our printing systems business to Allianz Capital Partners (ACP). Later in the year, we also sold off MAN TAKRAF Fördertechnik (a conveyor system specialist), and we spun off Ferrostaal's steel business with a view to selling it. Taken together with the disposal of other companies in 2005, MAN unloaded non-core-business sectors, with a total sales volume of €3.6 billion, thus increasing our profitability.

MAN will now concentrate on the core production areas of Commercial Vehicles, Diesel Engines, and Turbo Machinery, as well as Industrial Services, which will also take on group-wide functions in sales and services. We have thus achieved a highly capable, well managed, and sustainable structure, and are deploying these business areas in vibrant growth markets.

Regarding our commercial vehicles business, we are continuing to focus on organic growth, examples of which include the construction of a new truck assembly plant in Kraków, a joint enterprise in India under the name of MAN FORCE TRUCKS, a new bus assembly plant in Mexico, as well as the international expansion of our sales and service activities. Our diesel engine area will continue to grow through increased service business as well as the rising demand for decentralized electrical power supply facilities. Turbo Machinery unit delivers essential technology for the transport of oil and gas in pipelines. New prospects have also opened up in the fast-growing field of gas-to-liquids (GTL), where MAN TURBO commands two key components used in the GTL process: compressors and reactors. This technology is also essential for the manufacture of CO_2-neutral fuels generated from biomass (BTL). As a specialist in project development and industrial engineering, MAN Ferrostaal is profitable building industrial plants on its own, but also collaborates with the other MAN businesses in diesel power plants as well as biodiesel refineries and other types of industrial engineering.

We believe that reinforcing our companies through acquisitions and partnerships is a promising avenue. In the long term, we think this will make sense especially in the commercial vehicle business. The Executive and Supervisory Boards thus decided in late summer to seek a combination with Scania, our Swedish competitor.

On September 18, we announced our offer to merge with Scania thus creating the new number one in the European commercial vehicles market. Our intention was to obtain the support of Scania's two major shareholders. Last but not least, the takeover deal's simplicity and potentially quick settlement were key supporting factors. In October, we increased the bid price and simultaneously purchased 14% of Scania's voting rights. After Volkswagen AG, one of Scania's major shareholders, officially rejected the deal in January, we also withdrew our offer as we could no longer secure the necessary 90% approval quota. We were thus unable to persuade Scania shareholders to accept our bid.

The final outcome of the process is that all parties involved agree that it makes sense from an industrial perspective to have MAN AG, Scania AB and VW's heavy-truck unit in Brazil combine forces. The EU Commission approved a merger of MAN and Scania without restrictions. In addition, VW has become a major shareholder in MAN, and MAN also holds a stake in Scania. This arrangement has created positive conditions to arrive at a mutually agreeable solution. MAN remains open to discussions to make the merger happen. We will also continue working on strengthening our businesses in an organic and structurally sound manner.

We have just completed the most successful fiscal year in the company's recent past. Most of that achievement can be attributed to each and every employee at the MAN Group. I would like to thank them sincerely for their hard work and I also thank you, our shareholders, for your trust and confidence in your company's future, and I entreat you to continue your support.

Sincerely yours,

Håkan Samuelsson
Chairman of the Executive Board
MAN AG

Specialized for local and
distribution transport:
the TGL product line from
MAN Nutzfahrzeuge.

Dipl.-Ökon. Anton Weinmann
Commercial Vehicles, age 51,
appointed through 12/31/2009

Dipl.-Ing. Håkan Samuelsson
Chairman, age 55,
appointed through 12/31/2009

Dr. h. c. Karlheinz Hornung
Finance, age 56,
appointed through 09/30/2012

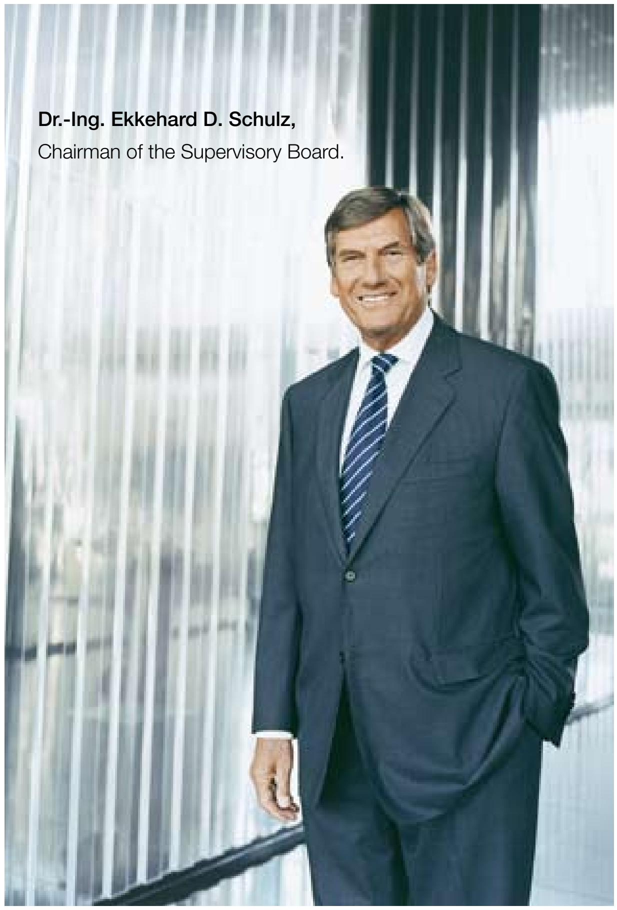
Dr. jur. Matthias Mitscherlich
Industrial Services, age 57,
appointed through 10/31/2011

Dr.-Ing. Georg Pachta-Reyhofen
Diesel Engines, age 51,
appointed through 06/30/2011

Jürgen Maus
Turbo Machinery, age 62

Blades of a centrifugal compressor made by MAN TURBO.

Report of the Supervisory Board


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

During the 2006 fiscal year, the Supervisory Board regularly discharged its duties under the law and the company's Memorandum of Association, oversaw the management of the company, and regularly advised the Executive Board on all relevant issues. The Executive Board continually provided the Supervisory Board with comprehensive, up-to-date information on business performance, relevant operational events, enterprise planning and the risk situation, and management process, both orally and in writing. We were included in decisions of material importance at all times. On business development issues and strategic projects, I personally obtained information outside the Supervisory Board meetings in regular conversations with the Chairman of the Executive Board. The full Supervisory Board held four ordinary meetings and one extraordinary meeting during fiscal 2006.

The Supervisory Board discussed in detail the strategic development of the MAN Group into an increasingly international company focused on transport-related engineering. In this context, we scrutinized the continued sale of MAN Group's non-core activities as well as essential acquisition projects designed to reinforce the core business areas.

The Supervisory Board deliberated extensively on the sale of MAN Roland Group (Printing Systems area) to Allianz Capital Partners (ACP) and on the sale of the MAN TAKRAF Group to VTC Holding. Our discussions and reviews focused on the respective process of valuation as a basis for determining the selling price. In the case of MAN Roland, this involved hearing the opinions of external consultants. We also deliberated on the appropriate timing for a sale. In addition, we held detailed discussions with the Executive Board on the proposed reinvestment in the acquiring company as part of the MAN Roland transaction, since MAN continues to own 35% of MAN Roland shares indirectly.

The main focus of the discussions of the Executive Board and the reviews by the Supervisory Board in the second half of 2006 was the plan to take over the Swedish truck manufacturer Scania. Our activities included a comprehensive discussion of the industrial concept for the combination of MAN Nutzfahrzeuge and Scania, the resulting strategic and financial consequences for MAN and issues of enterprise valuation. In an extraordinary Supervisory Board meeting on September 17, 2006, we approved a public takeover offer to Scania shareholders. Further decisions in this matter were delegated to the Standing Committee, which closely followed the process and reported to the full Supervisory Board. In their deliberations, the Committee and the full board were occasionally assisted and briefed by financial and legal advisors from outside the company.

The joint venture involving MAN Nutzfahrzeuge and Force Motors in India and the acquisition of the steam turbine division of B+V Industrietechnik GmbH for the Turbo Machinery area were also reported comprehensively by the Executive Board and discussed by the Supervisory Board.

Corporate Governance at MAN
The Executive Board and Supervisory Board issued their declarations of compliance in December 2006 as required by section 161 of the German Stock Corporation Act (AktG). According to these declarations, MAN AG duly followed the recommendations of the German Corporate Governance Code in accord with the company's statement of compliance of December 2005, thus satisfying all recommendations of the Code in its current version of June 12, 2006. The declaration has been published on the MAN Group Web site. In 2006 we executed an effectiveness audit. Additional information about corporate governance at MAN can be found starting on pg. 15.

The Annual General Meeting on May 19, 2006, adopted a new remuneration structure for Supervisory Board members. The essential change involves basing the variable component on actual results per share (rather than according to the dividend, as previously). Details on Supervisory Board and Executive Board compensation structure can be found in the Compensation Report starting on pg. 19 of this annual report.

Audit of 2006 Financial Statements
The Annual General Meeting of May 19, 2006, selected KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Munich ("KPMG"), as auditors for fiscal 2006. The Supervisory Board followed the Audit Committee's recommendation, hiring KPMG as auditors and setting out the audit's priorities.

KPMG has audited the financial statements and management reports of MAN AG and the MAN Group as at December 31, 2006, and has issued an unqualified statement of conformity. The auditors attended the preparatory meeting of the Audit Committee as well as the finalizing meeting of the Supervisory Board and gave their report. We have favorably taken note of the audit's results. The Audit Committee's held two sessions of extensive discussion and examination of the financial statements, especially regarding the methods applied, the choice of legal options, and the valuation of positions involving special risks. The Committee subsequently reported to the full Board, which discussed this report at length and also conducted separate reviews of the corporate financial statement, the consolidated financial statements and the management report, determining that no objections will be raised against the statements. We thus endorse the annual financial statements as prepared by the Executive Board, along with the consolidated financial statements. We have considered and approved the appropriation of retained earnings as proposed by the Executive Board.

Key Activities of the Committees
The Supervisory Board has created a total of four committees, whose essential duties are to prepare decisions to be made by the full Board. In individual cases, Supervisory Board decisions have been delegated to the committees. The current composition of the committees can be found on page 188 of this annual report. The Standing Committee met a total of seven times in 2006 and considered disinvestment as part of streamlining the portfolio, especially the sale of the Printing Systems area, as well as acquisition projects to reinforce MAN's core business. The Scania acquisition project took up much of its time. Business decisions requiring Supervisory Board approval were prepared and the proposed decisions were distributed. The committee's discussions have been reported.

The Audit Committee met three times during the financial year. It was involved with the annual financial statements and the consolidated financial statements for 2005 and discussed the audit reports with the auditors. In addition, on behalf of the Supervisory Board, the committee reviewed the proposal made to the Annual General Meeting on the appropriation of MAN AG retained earnings for 2005. The committee also extensively reviewed the system for early detection of risk and the mandate to the auditors for the 2006 audit of the annual financial statements as well as audit priorities. At the request of the Audit Committee, KPMG reviewed the interim financial statements of the MAN Group as at June 30, 2006. There were no objections. At a meeting of the full Supervisory Board, the Audit Committee reported on the essential points of consultation and submitted them for discussion.

The Personnel Committee met a total of four times during the fiscal year. It voted the new version of the standard employment contract for Executive Board members and introduced a new market-oriented system for remuneration and pensions of Executive Boards, which complies with Corporate Governance principles. Under the new remuneration system, bonuses will no longer be based on the dividend and return on working capital but on the achieved value added to the MAN Group (MAN Value Added). The pension system will be based on a fixed contribution. The committee also considered individual remuneration issues and discussed the appointment of Dr. Pachta-Reyhofen to the MAN Executive Board and the renewed appointments of Dr. h.c. Hornung and Dr. Mitscherlich.

The full Board heard reports on the compensation structure for the Executive Board and other fundamental topics; these issues have subsequently been discussed by the Supervisory Board. It was not necessary to convene the Arbitration Committee under section 27(3) of the German Co-Determination Act (MitbestG) during 2006.

Changes to Supervisory Board and Executive Board
The Vice-Chairwoman of the Supervisory Board, Dr. Gerlinde Strauss-Wieczorek, completed her term as of March 16, 2006. Under a court decision with effect on May 3, 2006, she was replaced on the Supervisory Board by Jürgen Kerner. The Supervisory Board elected Mr. Lothar Pohlmann as its new Vice-Chairman, who also joined the Personnel Committee. Mr. Thomas Otto was elected to the Standing Committee, the Audit Committee and Arbitration Committee under section 27 of the German Co-Determination Act (MitbestG).

Further changes to the Supervisory Board resulted from the sale of MAN Roland. The employee representatives from the Printing Systems area, Jürgen Bänsch and Reinhard Frech, left the Supervisory Board as of July 18, 2006. Under decision by the competent court dated September 14, 2006, Dr.-Ing. Robert Glauber and Wilfrid Loos were named as their successors.

We extend our thanks to all former Supervisory Board members. Special thanks go to Dr. Strauss-Wieczorek, who had been a member of the Supervisory Board since February 1988 and was especially close to the enterprise as Vice-Chairwoman and member of all committees of the Supervisory Board, for her valuable service to the MAN Group and its employees.

As of July 18, 2006, upon the completion of the sale of MAN Roland Druckmaschinen AG, Prof. Gerd Finkbeiner, who had been responsible for the Printing Systems area, left the Executive Board. Prof. Finkbeiner restored the sheet-fed printing unit to profit after extensive restructuring. We thank him for his services to the company.

As of July 1, 2006, Dr.-Ing. Georg Pachta-Reyhofen was newly appointed to the Executive Board; as Chairman of the Executive Board of MAN Diesel SE, he is responsible for the Diesel Engines business area.

We extend our thanks to all members of the executive boards and boards of directors, and to the staff of all companies in the MAN Group, for their performance and dedication. We also thank the employees' representatives for their objective and constructive cooperation in the interests of the company.

Munich, March 6, 2007
Chairman of the Supervisory Board

Dr.-Ing. Ekkehard D. Schulz

Connecting rod and pistons
of MAN Diesel's world-record
engine, the 100,000 hp 12K98MC.

Corporate Governance *) at MAN

MAN follows all recommendations of the German Corporate Governance Code. The Remuneration Report describes the structure and amount of Executive Board and Supervisory Board pay.

To MAN, corporate governance is vital in assuring transparent corporate management and control. It is the basis for effective and trusting cooperation with our stakeholders, giving due consideration to the interests of our customers, employees, suppliers, and lenders, as well as those of our stockholders.

There is a long-standing tradition at MAN to live up to the standards of good and responsible corporate management. This requires not only respect for formal rules, but also management with a long-term orientation focused on value creation. The foundation for this is our Industrial Governance management concept based as it is on the three pillars of strategy and structure, leadership supply, and controlling.

Corporate governance in Germany is regulated by the German Corporate Governance Codex and also by the German Stock Companies Act, the Control and Transparency in Enterprises Act (KonTraG), the Transparency and Disclosure Act (TransPuG), the Corporate Integrity and Modernization of the Right to Contest Act (UMAG), and finally the provisions of the Executive Board Remuneration Disclosure Act (VorstOG).

In 2002, the voluntary German Corporate Governance Code ("the Code") was introduced. Since then, the text of the Code has been reviewed annually by the German Corporate Governance Code Commission and adapted as necessary. The current version of the Code was published on July 24, 2006, by the Federal Department of Justice in the electronic version of the German Federal Gazette.

The seven chapters of the current version of the Code contain 81 binding recommendations and 20 additional suggestions. The Executive Board and Supervisory Board of MAN AG issued the following Declaration of Compliance in December 2006:

"MAN AG has complied with the recommendations of the German Government Corporate Governance Code in accordance with its Declaration of Compliance of December 2005 and complies with the recommendations of the German Corporate Governance Code in its current version."

The Executive Board and Supervisory Board of our listed subsidiary RENK AG in Augsburg have provided a Declaration of Compliance, published in the RENK AG Annual Report and on the Internet at www.renk.biz.

We consider it very important to continually review corporate governance practice in our company and to adjust it as necessary. In recent years, MAN has monitored the discussion of this subject and actively tracks current developments.

Comments on essential recommendations and suggestions of the Code appear below.

Promotion of stockholders' rights

In recent years, the stockholder structure of MAN AG has become substantially more international (see the section on "The Stock"). This makes the presentation of the company and its corporate governance practices especially important for foreign investors. In accordance with the principle of equal treatment, we ensure that all our stockholders receive the same information. We offer all those interested an opportunity to obtain an up-to-date and authentic picture of our company at our Annual General Meeting, on our website www.man.eu/investors, and in financial publications and at capital market conferences.

*) also serves as Corporate Governance Report under paragraph 3.10 of the German Corporate Governance Code as amended on June 12, 2006

MAN publishes a calendar listing all upcoming financial events in its annual report, interim reports, and on its website at www.man.eu/investors. Likewise appearing on the website are the annual financial statements as required by section 10 of the German Securities Prospectus Act (WpPG), succinctly presenting all relevant corporate information regarding the preceding calendar year.

Annual general meeting

The annual general meeting serves as a platform for stockholders of MAN AG to exercise their voting rights, obtain information and engage in discussion with the Executive Board and Supervisory Board. By law, the annual general meeting is responsible for various decisions, for example, the appropriation of retained earnings, the discharge of the Executive and Supervisory Boards, election of Supervisory Board members and the selection of auditors. In addition, the annual meeting votes on amendments to the Articles of Association and capital measures.

At the 2006 Annual General Meeting, 39.3% of the voting capital was present. This was an increase of 4.6 percentage points over the previous year. The number of participants, 1,867 stockholders, was slightly down on last year (1,995 stockholders attended in 2005).

To participate in the annual general meeting, stockholders need to prove their entitlement to vote. To do so, they need to show that they had MAN shares in their portfolio at the beginning of the 21st day prior to the annual general meeting (record date). Stockholders must also register to attend before the end of the minimum statutory period. Attendance requirements are explained in detail in the relevant convening notice. MAN permits stockholders to use company employees as proxies. Stockholders may also grant a proxy to a bank or a stockholder association, which will then represent them in voting.

To allow all stockholders to follow the annual general meeting, the entire event is broadcast live on the Internet. Stockholders may also cast their ballots electronically.

The Annual General Meeting (AGM) is chaired by the Chairman of the Supervisory Board. He is responsible for the swift and efficient running of the AGM, ensuring, if need be, that a statutory general meeting is completed within no more than four to six hours.

MAN presents its annual financial statements to the AGM and makes them available on request. In addition, the annual financial statements, quarterly reports, and the current agenda of the annual general meeting, as well as other documents, are published on our website. Each stockholder will receive notice of the AGM and its agenda through his or her depository bank. The notice of the annual general meeting is also published in the electronic German Federal Gazette and on our website.

Co-operation between the Executive Board and Supervisory Board

Under German law, MAN AG is governed by the annual general meeting and, in addition, by a dual management structure consisting of an Executive Board and a supervisory Board. Both bodies work together closely for the benefit of the company and make every effort to achieve sustained growth in the value of the company for its stockholders.

The two bodies are strictly separate in terms of personnel and have independent responsibilities. The Executive Board assumes management and operational functions, while the Supervisory Board has supervisory and advisory duties. Both the Executive Board and the Supervisory Board operate on the basis of relevant legal provisions and the applicable Articles of Association. The Executive Board extensively and promptly informs the Supervisory Board about strategy, planning, business development and risks. Transactions and measures that require the consent of the Supervisory Board are submitted without delay. The Executive Board promptly informs the Chairman of the Supervisory Board of extraordinary events.

The following chart illustrates the co-operation between the governing bodies of MAN AG:

Annual General Meeting
140,974,350 common and 6,065,650 preferred shares

Reporting duty ⬆ ⬇ Election of stockholders' representatives

Supervisory Board (20 members)
10 stockholders' and 10 employees' representatives
Standing Committee (5 members)
Personnel Committee (3 members)
Audit Committee (5 members)
Arbitration committee (4 members)

Reporting duty ⬆ ⬇ Supervision, Discussion, Appointments

Executive Board
5 members

As at January 1, 2007

Executive Board

The Executive Board is the managing body of MAN AG and currently consists of five members. The members of the Executive Board are jointly responsible for managing the business of the company. The Executive Board is appointed by the Supervisory Board. The basis of the work of the Executive Board is found in the Rules of Procedure. As part of the Industrial Governance leadership concept, the Executive Board determines the company goals for the entire MAN Group as well as the allocation of financial resources. It is specifically responsible for the following duties:

- Definition and management of the strategic portfolio (strategy and structure),
- Definition of the personnel strategy and appointments to leadership positions in the Group (leadership supply),
- Planning and management of performance (controlling), as well as
- Representation of the company and its values vis-à-vis the capital market and the general public.
- The risk management system is intended to facilitate the early detection of business and financial risks.

The Executive Board fulfills all its reporting obligations to the Supervisory Board. The members of the Executive Board may accept secondary responsibilities, including supervisory board positions in other companies, only with the prior consent of the Supervisory Board. The Executive Board members are also obliged to disclose conflicts of interest to the Supervisory Board and the other members of the Executive Board without delay. In the fiscal year, no transactions with members of the Executive Board or affiliated persons were reported by companies in the MAN Group.

The Management Board of MAN AG, instituted in 2005 and consisting of the members of the Executive Board and one member of a Business Area Executive Board, ensures that all Business Areas are represented at the highest Group level.

The following table shows the allocation of responsibilities on the MAN AG Management Board:

Members of the Executive Board and of the Management Board	
Dipl.-Ing. Håkan Samuelsson	Chairman (CEO)
Dr. h. c. Karlheinz Hornung	Finance (CFO)
Dr. jur. Matthias Mitscherlich	Industrial Services
Dr.-Ing. Georg Pachta-Reyhofen	Diesel Engines
Dipl.-Ökonom Anton Weinmann	Commercial Vehicles
Additional representative on the management board	
Jürgen Maus	Turbo Machinery

As at January 1, 2007

The members of the Executive Board are responsible for good company management. A Directors & Officers liability policy with a deductible of €100,000 for MAN AG Executive Board members is in force to cover liabilities which these members might incur in the discharge of their duty.

Supervisory Board
The Supervisory Board is the supervisory and advisory body of MAN AG. The Board consists of 10 stockholder and 10 employee representatives. The stockholder representatives are elected by the annual general meeting, while the employee representatives are elected by the employees. The next statutory election of employee representatives is scheduled for spring 2007, the next election of stockholder representatives will be at the 2007 Annual General Meeting. Members of the Supervisory Board are elected individually.

Members' expertise ensures efficient work within the Supervisory Board. The relationship of the members to the company can be considered independent as defined in the Code. The Chairman of the Supervisory Board, Dr. Ekkehard D. Schulz, is also chairman of the Executive Board of ThyssenKrupp AG. Only one of the current Supervisory Board members previously belonged to the Executive Board of MAN AG.

In the fiscal year, no conflicts of interest were reported by Supervisory Board members. No consulting or other service or employment contracts existed between Supervisory Board members and the company.

Appointments of Supervisory Board members to committees of other companies are listed in the notes to the Consolidated Financial Statements on page 185. The Supervisory Board members have no positions or consulting duties with significant competitors of the company.

The Supervisory Board has created a number of committees to perform its duties more effectively.

The committees, their composition and their activities in the fiscal year are described in the Supervisory Board Report on pages 11 to 13.

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

The Chairman of the Audit Committee, Dr. Karl-Ludwig Kley, is also Vice-Chairman of the Board of Partners of Merck KGaA. He has special knowledge and experience in the application of accounting principles and internal control procedures.

The Supervisory Board members are responsible for carrying out their duties in accordance with the rules. Supervisory Board members are covered by Directors & Officers (D&O) liability insurance with a deductible equivalent to one year's remuneration.

Dealings subject to reporting requirements
Under Section 15a of the German Securities Trading Act (WpHG) and the recommendations in the Code, persons carrying out management duties and individuals closely related to such persons, as well as legal entities and other institutions that are connected to such persons, must report the purchase or sale of MAN shares and any related financial instruments to both the issuer and the German Financial Supervisory Authority (BaFin). Reported transactions are published on the Internet at www.man.eu/investors. During this fiscal year, no such dealings were reported to MAN AG.

Accounting
The annual Consolidated Financial Statements of the MAN Group are prepared by the Executive Board on the basis of International Financial Reporting Standards (IFRS), while the financial statements of MAN AG are prepared in accordance with the requirements of the German Commercial Code (HGB). The financial statements were examined and approved by the Supervisory Board. All deadlines for publication of the consolidated financial statements and quarterly reports were adhered to during the year.

Annual audit
The Supervisory Board proposed to appoint KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, München ("KPMG"), as auditors for the fiscal year. The AGM accepted this proposal.

KPMG also confirmed its independence to the MAN AG Audit Committee. Moreover, it was agreed that the Chairman of the MAN AG Audit Committee would be informed immediately of any grounds for disqualification or partiality occurring during the audit unless these could be promptly remedied.

Remuneration report for fiscal year 2006 *)
Remuneration of the members of the Executive Board
Responsibility for Executive Board contracts and thus for determining the remuneration of Executive Board members falls to the Executive Personnel Committee of the Supervisory Board. The structure of the Executive Board remuneration system is discussed and reviewed at meetings of the full Supervisory Board upon the suggestion of the Executive Personnel Committee.

The goal is to determine appropriate remuneration. Applicable criteria include the responsibilities of the respective Executive Board member, his personal performance and the performance of the Executive Board, as well as the economic situation and the success and future prospects of the company in comparison to its context.

In the first months of 2006, the Executive Board remuneration system then in place underwent fundamental review. The firm of Towers Perrin served as consultant to assess the appropriateness of the payments, their market commensurability and compliance with the German Corporate Governance Code. Based on the results of this evaluation, the remuneration structure was adapted in ways that are presented below.

Remuneration structure and components
The remuneration of the Executive Board members consists of fixed salary and performance bonuses as well as pension entitlements and results-dependent components. The variable results-dependent components consist of annually recurring components linked to the business results and components with long-term incentives containing risk elements.

- The fixed remuneration is paid as a monthly salary. In addition there are benefits in the form of a company car and driver as well as the payment of insurance premiums. The fixed salary is reviewed and regularly adapted as necessary taking into account the general pattern of salaries and the area of responsibility of the particular member of the Executive Board. For the yearly results-based bonus, an ambitious system based on meaningful measurement principles was introduced starting in 2006. Instead of the previous dividend payment, the bonus is now based on MAN Group added value. This is calculated based on the capital return less capital costs (for details on this, see the section on control instruments in the Management Report). The Executive Board is entitled to a profit bonus only if the capital return exceeds capital costs. The amount is determined according to the extent that a previously determined value-added amount has been reached. Moreover, the annual profit bonus is capped. The Executive Personnel Committee determines the target values at the start of each fiscal year. The value added achieved may be adjusted in case of extraordinary special influences, such as acquisitions and their resulting effects.

  Two-thirds of the profit bonus is paid in cash, while one-third of the bonus is invested in MAN shares analogously to the MAN share program (see below).

*) The remuneration report is a part of the Management Report as defined in section 315 of the German Commercial Code (HGB).

- Since 2005, the components based on long-term company success have been paid in the form of the MAN share program. As part of this program, the executives annually receive taxable cash payments amounting to 50% of their fixed remuneration. Half of the amount of the payment is invested in share capital of MAN AG. Purchase and holding of the shares is performed centrally by MAN AG in the name and on behalf of the Executive Board members. The shares acquired in this way are subject to blocking for three years, after which they are freely disposable. During the blocking period, the shares may not be sold, pledged or hedged. Upon retirement or termination from the MAN Group, the blocking period is reduced to one year from the day of withdrawal.

- The pension rights of the Executive Board members include pension, disability and survivor benefits. The model was revised starting in 2006 to reflect market developments. The previous fixed benefit with reappointment supplements was replaced by a fixed contribution, fund-tied pension system. Each year, MAN AG pays a contribution of 20% of the fixed remuneration and the previous year's profit bonus paid in this fiscal year into a MAN Fund; additional contributions from deferred compensation are allowed as an option. The contributions made and their yields are entered in individual capital accounts. The yield of the current balance of the capital account depends on the performance of selected capital market indices, whose weighting is age-dependent. The contributions and their yield as well as any additional yield achieved by the Fund make up the employable capital. In an insured event, the balance of the capital account or the total of contributions made, whichever is greater, is paid out as a single amount, paid in installments, or converted to an annuity. In case of disability or death, either the current account balance or capital amounting to four times the fixed annual remuneration and profit bonuses is paid out, depending on which is greater. The conversion from the old pension system to the new one is fundamentally value-neutral.

2006 Executive Board Member Remuneration
Remuneration of active members of the Executive Board for their activity in the 2006 fiscal year totaled €13.7 million. Details of Executive Board remuneration, specifically the individual amounts paid, appear in Note 33 to the Consolidated Financial Statements.

Special arrangements, especially upon retirement
Under a resolution of the Supervisory Board in December 2006, in the future, in case of the premature termination of an appointment without serious reasons and at the request of the company, the affected member of the Executive Board will receive the fixed remuneration, bonus, and insurance supplements until the end of the regular period of service but for a maximum of two years. Income from other activities is deducted, and the base used for calculating the amount of contributions to the pension system reduced accordingly. Upon termination of an appointment at the request of the member of the Executive Board—which may occur with notice of 18 months without giving reasons—payments are allowed only until the expiration of the notice period. Currently there are no change-of-control rules.

Remuneration of members of the Supervisory Board
The structure and amount of the remuneration of the Supervisory Board is determined by the annual general meeting and is governed by section 12 of the Articles of Association. It reflects the duties and responsibility of the Supervisory Board members as well as the economic success of the Group.

Starting in the 2006 fiscal year, the new system proposed by management and passed by the AGM on the basis of a study by Towers Perrin is in force. Its goal was to adapt the remuneration system to reflect the recommendations of the German Corporate Governance Code, current market standards for appropriate remuneration of the activity of Supervisory Board members, and current developments at MAN.

The annual remuneration consists of the following components:

- a basic amount (fixed remuneration) of €35,000, as well as

- a variable remuneration (results bonus).
  Starting in 2006, this is no longer measured according to the MAN dividend but according to the results per share actually achieved according to the Consolidated Financial Statements. The variable remuneration amounts to €175 per €0.01 earnings per share that is above €0.50. It is limited to double the basic amount.

- additional remuneration for the Chairman and Deputy Chairman of the Supervisory Board as well as for membership or chairmanship of Supervisory Board committees.
  The Supervisory Board Chairman receives double and the Vice-Chairman one and a half times the fixed and variable remuneration. In view of the increasing scope of the activity and resulting special responsibilities, starting in 2006, in addition to the Audit Committee, membership on the Standing Committee and Executive Personnel Committee is subject to additional payment. Committee membership receives additional remuneration of 50% and chairmanship 100% of the basic amount.

- In addition, the expenses of the members of the Supervisory Boards are reimbursed.

- As an exception to the suggestions of the Code (5.4.7.), a performance-oriented component related to the long-term performance of the company has not been included in the remuneration.

2006 Supervisory Board Member Remuneration

The total remuneration to be paid to the members of the Supervisory Boards for 2006 amounts to € 2.5 million. In addition, members of the Supervisory Boards of MAN AG are paid remuneration of €59,000 for Supervisory Board terms with Group companies in the 2006 fiscal year. An individual list of the payments of Supervisory Board members serving on the Supervisory Board in 2006 appears in Note 34 to the Consolidated Financial Statements below.

Other

In addition, Supervisory Board members in the fiscal year received no further compensation or advantages for personal services, particularly advisory or agency services.

Prior Supervisory Board members who left the Supervisory Board before January 1, 2006, receive no remuneration.

TGA semi-trailer for long-distance transport: Flagship of MAN Nutzfahrzeuge.

MAN's Stock

Positive price trend, both short and long term. Dividend raised to a total of €2.00 per share. Excellent capital market communications.

Key indicators for MAN common stock

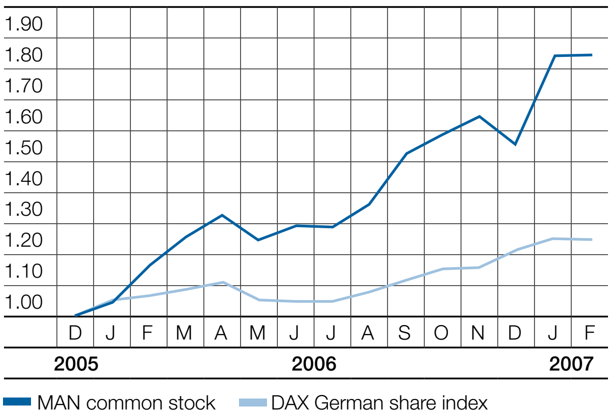
	2006	2005
Earnings per share in €	5.05	2.75
Cash dividends per share in € (1.50 + 0.50)	2.00	1.35
Market capitalization (as at Dec. 31)[1] in €mill.	10,035	6,604
Closing price in €	68.46	45.08
Highest price in €	74.00	45.24
Lowest price in €	44.36	29.00
Yield [2] in %	2.9	3.0
Gross yield [3] in %	55.5	63.9
Number in thousands	140,974	140,974
DAX yield in %	22.0	27.1
DJ EURO STOXX yield in %	23.0	25.8

[1] Basis: 140,974,350 common stock and 6,065,650 preferred stock
[2] Cash dividends in relation to the Dec. 31 closing price
[3] After reinvestment of cash dividends on last trading day of the month in which the Annual General Meeting was held
Source: Bloomberg

MAN stock is traded on all seven German stock exchanges as well as on Xetra. MAN is included in the DAX German stock index, which measures the performance of the 30 largest companies traded in Germany.

MAN common stock vs. DAX

December 31, 2005 = 1.00

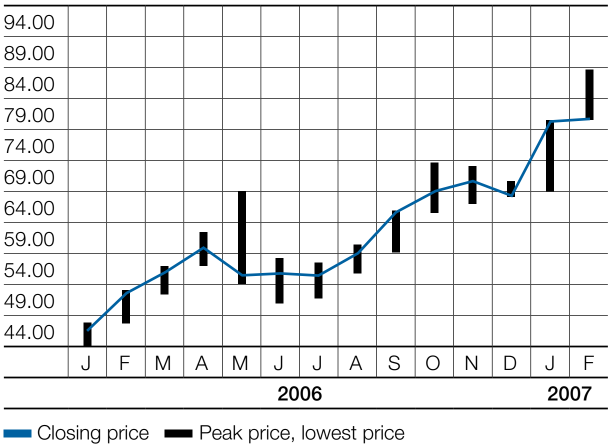


Source: Bloomberg

Share price trend

Despite a temporary price correction in the second quarter, our share price performed positively over the fiscal year as a whole, substantially exceeding the DAX. Factors driving this rise included significantly improved results of all business areas as well as the consistent focusing of the company portfolio onto Transport-Related Engineering businesses. At the same time, our stock profited from the generally positive stock market context, especially in the second half of the year.

Peak, lowest, and closing prices of MAN common stock (in €)



Source: Bloomberg

Between January and December 2006, MAN common stock, which stood at €45.08 on December 30, 2005, rose from €23.38 to €68.46 on December 30, 2006. MAN's share price increased in value by a substantial 51.9% year-on-year. During the same period, the DAX was up 22.0%, while the Dow Jones EURO STOXX rose by 23.0%.

Performance *) of the MAN common stock and important indices until the end of 2006 (in % p.a.)

	MAN cmn. stock	DAX30	DJ EURO STOXX
1 year	55.5	22.0	23.0
2 years	59.9	24.6	24.5
5 years	27.2	5.0	7.0
8 years	16.8	3.5	5.5
10 years	17.1	8.6	11.0

*) Price trend of stock indices; price of MAN common stock including cash dividends
Source: Bloomberg

Total return

Over the last ten years, an investment in MAN common stock has earned an annual total return of 17.1% and thus outperformed the DAX (+8.6%) and the Dow Jones EURO STOXX (+11.0%).

Market capitalization

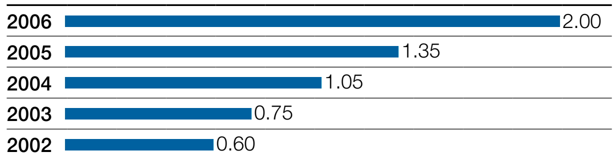
Reflecting the share price increase, MAN's market capitalization increased from €6.6 billion to €10.0 billion over the fiscal year. Wolfsburg-based Volkswagen AG's entry as a new major stockholder of MAN in the fourth quarter of 2006 reduced the rate of free float in MAN stock to 84.94%. According to Deutsche Börse's index rating system, MAN common stock remained unchanged in 21st place among the DAX's 30 companies as of December 31, 2006.

Trading in MAN common stock totaled €21,207 million during the last fiscal year, which was nearly twice the previous year's level (€11,155 million). This put MAN's stock in 20th place, compared with 24th in the previous year. The total amount of common stock traded in the fiscal year was 355 million shares, clearly higher than the previous year's 310 million.

Dividend

As part of our flexible dividend policy, we believe in allotting an appropriate share of the company's earnings to our stockholders. For the 2006 fiscal year, the Executive and Supervisory Boards will therefore propose to this year's Annual General Meeting a dividend increase of €0.65 to €2.00 per share, consisting of a cash dividend of €1.50 and a bonus of €0.50. Based on the closing price of common stock on December 31, 2006 of €68.46, this represents a yield of 2.9%.

MAN dividend per share (in €)



Sustainability

In September 2006, MAN's stock was again listed in the Dow Jones STOXX Sustainability Index (DJSI STOXX). This means that MAN's stock has been a part of the leading European share index for sustainable corporate management for the fifth year running. The DJSI STOXX exclusively lists companies considered models of sustainability-driven performance in Europe. In addition to economic indicators, environmental management and promotion and support for social and cultural activities are included in the evaluation.

Investor Relations

Our communications activity centered on MAN Group's focus on Transport-Related Engineering and its proposed merger with truck manufacturer Scania AB in the second half of the year.

Dow Jones Sustainability Indexes
Member 2006/07

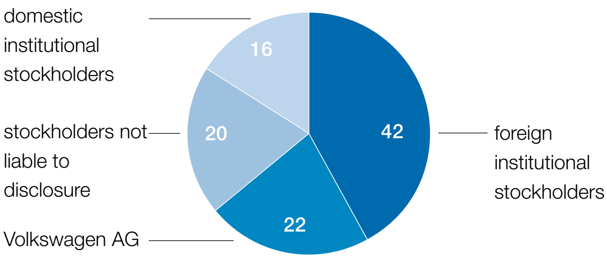
In personal and telephone conversations with capital market participants as well as at road shows and investor conferences in important international financial centers, we have intensively discussed our company and our strategy. Communications activities were also intensified to deal with the planned merger with Scania.

Our investor relations aspires to inform all stockholders and interested members of the public comprehensively and promptly. On the Internet, at www.man.eu/investors, we provide diverse as well as customized information and instruments to anyone interested, thus permitting as accurate as possible an evaluation of the company and its stock. In addition to financial reports, presentations and publications, we also broadcast our Annual General Meeting in its entirety over our website. This is also true of the annual analysts' conference and the telephone conferences on our quarterly reports.

For stockholders unable to attend the Annual General Meeting in person, MAN offers the possibility of voting using a virtual Internet proxy and instruction system.

In a European survey of analysts by "Capital" business magazine, investor relations at MAN took third place on the DAX in 2006.

Stockholder structure on the 2006 closing date



Source: D. F. King & Co., Volkswagen AG

Stockholder structure

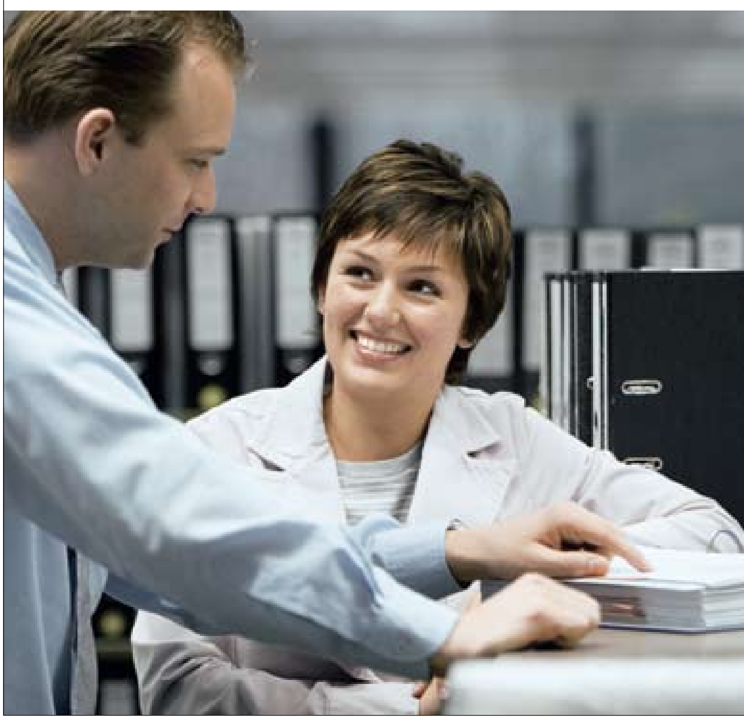
This fiscal year, as in the past, we conducted stockholder surveys to make communications with our stockholders more effective. This has permitted us to better identify the holders of more than three-quarters of our common stock.

According to the surveys, half of the identified stock is owned by foreign investors, with the United Kingdom and United States the most heavily represented regions. This confirms a trend toward greater internationalization of our stockholder base, something which had been visible in the previous year. With a holding of more than 5% of the voting capital, our single largest stockholder of MAN AG is Volkswagen AG of Wolfsburg, Germany. The company duly notified the European Union on November 27, 2006, that its share of MAN AG's votes had exceeded the statutory reporting limits of 5% and 10% and now amounted to 21.6%. The voting capital of AXA S.A., Paris, fell below the 10% and 5% limits in MAN AG on September 29, 2006.

Basic information

		Equity		Debt
		Common stock	Preferred stock	MAN Financial Services plc
ISIN Code		DE0005937007	DE0005937031	XS0181879650
Securities Ref. No.		593700	593703	A0AART
Reuters symbol	Xetra-Handel	MANG.DE	MANG_p.DE	0#DE018187965=
Bloomberg symbol	Xetra-Handel	MAN GY	MAN3 GY	MANAG

Pay incentives for qualified employees ensure that leadership positions can be filled internally.



Creating New Jobs

Thanks to our growth, we have created 1,546 new jobs. MAN employs more than 50,000 people worldwide, with more than 40% of them employed outside of Germany.

As of December 31, 2006, MAN Group had a personnel count of 50,290 employees (49,161 last year). This figure represents an increase of 2.1% even after a loss of 0.8% due to selling off certain companies. The total includes fixed-term positions, which in the interest of more flexibility, increased from 2,419 to 2,887. Taking adjustments into consideration, we have created 1,546 new jobs in 2006. Domestically, the job increase amounted to 1.5%, while abroad, it went up by 3.5%. Thus, the percentage of MAN employees working outside of Germany climbed to 42%, which attests to the MAN Group's increasing international presence.

As production output rises sharply, one concern of management is workforce flexibility. This has led us to raise the number of temporary employees. By year's end, the MAN Group employed 3,425 temporary staff, compared with 2,251 a year ago. MAN Group companies operating in Germany trained 2,048 trainees in technical and business positions, most of them under Germany's demanding apprenticeship system. This volume is almost the same as last year's. The average trainee-employee ratio is 7%, which is substantial by German industry standards.

Agreement regarding job security
Following intensive negotiations with employee representatives and the works council, we have agreed upon provisions that extend work hours and increase productivity. In return, we have agreed to make investments and create provisions to ensure job security at several production locations, such as Munich, Germany, and Oberhausen, Germany.

Leadership development
One focus of our work remains the systematization and continuous planning regarding leadership development. We consider the "leadership supply" issue one of the corporate center's primary tasks. Junior leaders who have the potential to assume additional responsibilities are identified early on for promotion. At the same time, we continue in our efforts to develop a leadership culture throughout the MAN Group. By doing so, MAN creates performance incentives for highly qualified employees and ensures that leadership positions remain filled with in-house talent. We have also simplified the transfer process for our personnel who wish to switch to another position within the MAN Group; this service is assisted by a job board posted on the MAN Intranet.

Linked to universities
We have further deepened our relations with universities and enhanced project-oriented collaboration. Selected junior managers are offered places on the MBA program at the ESMT (European School of Management and Technology) in Berlin, which we sponsor. This is just another way for us to properly plan for the company's future. At the same time, our company executives pass on their knowledge to university students. For example, our chief financial officer, Dr. Karlheinz Hornung, gives lectures at the University of Dortmund on the subject of controlling.

Overall, MAN collaborates with 60 universities and numerous external research facilities in various countries. MAN has tapped the synergies resulting from over 120 collaborative projects with these partners to then implement solutions that this cooperation and exchange of expertise have generated. Both sides benefit from this type of cooperation, especially since it can provide answers to important future-oriented issues that are pertinent to both MAN and its partners.

Sample projects currently under way include the following: MAN Nutzfahrzeuge and MAN Diesel are working to reduce diesel engine emissions. MAN Ferrostaal has a current project that deals with developing a solar power facility. Meanwhile, developers at MAN TURBO continue to find ways to make their units even more efficient, among other technical pursuits.

Working on these collaborative projects with MAN are more than 120 interns, 90 student trainees, 100 master's program students, and 60 individuals working on their PhDs. At MAN, these students have the opportunity to work at the cutting edge of industrial R&D. Upon completion of a given project, the best students generally find immediate employment at MAN.

MAN is active worldwide. In this issue, read how an international company has affected the lives of five people in five riveting reports.

01. José Luis Casillas de la Cruz, Mexico. A Passion for Being on the Road. **02. Daniel Ibarra, Chile.** Helping to Remedy Chile's Achilles' Heel. **03. Abdulrahman Mohamed Al-Suwaidi, Qatar.** The Evolution of a Future Energy Capital. **04. Ashish Shah, India.** Creating a Knowledge Superpower. **05. Annie Hao, China.** A Woman Amidst a World of Steel.

Photos on pages 29–63: Hauke Dressler

JOSÉ LUIS CASILLAS DE LA CRUZ, GUADALAJARA, MEXICO

"I love to drive, it's my passion. I want to move forward in life and on the road. My bus and I are one."

José Luis Casillas de la Cruz is a bus driver with the Mexican bus company Enlaces Terrestres Nacionales (ETN).

Mexico in Figures

Population (2006, in millions)	107.4
Gross domestic product per capita (2006, in US$)	7,594
Economic growth per year (average, 2002 to 2006, in %)	2.68
Human Development Index (HDI) *) rank	53
Bus passengers per year (in billions)	2

*) HDI measures a country's level of development and includes the purchasing power of its population, as well as education and longevity.

Sources: German Office for Foreign Trade; Human Development Report

THE ROAD TO PROSPERITY

Transportation and commerce are the major driving forces behind Mexico's growth. The new up-and-coming middle class of Latin America's biggest economy is pinning its hopes on them.

Cars cough and trucks wheeze, and still traffic flows briskly through a sunny and warm Guadalajara. It's ten o' clock in the morning and rush hour in this city of four million in western Mexico. Small cars, pickups and trucks squeeze by each other with inches to spare. Incredibly, whining mopeds find space to weave through. Horns honk and drivers gesture. José Luis Casillas de la Cruz steers his travel coach No. 5027 through the maze to the bus terminal. Times like this are his most stressful, even though he is normally relaxed behind the wheel of his MAN Lion's Coach L-model bus. Driving through the city's dense traffic requires surgeon-like skill and precision. "It takes your full concentration," says the 47-year-old driver, "or you'll run into something." But he never does; that is his challenge, his talent and his point of pride.

Continuous Growth

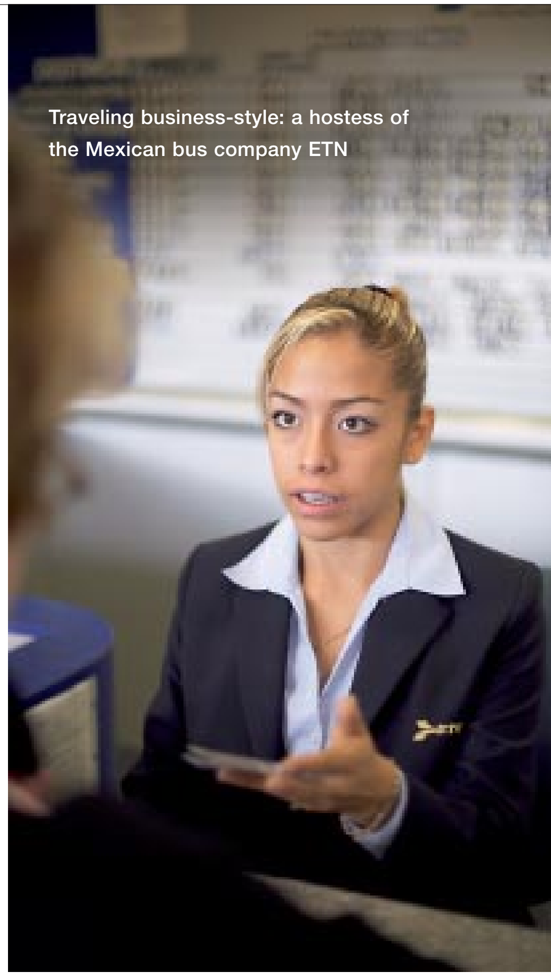
If you were to look down over Guadalajara, rush hour would give you an idea of how important mobility is to Mexican society. Vehicles of all makes—from the US, Asia and Europe—are everywhere. The up-and-coming middle class is another sign of Mexico's economic growth. "Mexico's economy is very dynamic right now," comments Silja Voss, a political economist at Deutsche Bank Research. She adds, "In the next few years, the gross domestic product will see a real increase by three percent per year." Compared with the so-called BRIC countries (Brazil, Russia, India, China), Mexico has an advantage due to its proximity to the US market, with various key players and service providers pinning their hopes on the lucrative opportunities presented by their wealthy neighbor.

Mexico slogged through its last economic crisis in the mid-nineties and emerged all the stronger for it. The gross domestic product (GDP) went up 40 percent from US$580 billion in 2000 to US$810 billion in 2006. The inflation rate is less than three percent. Even during occasional uneasy moments, such as at election time in 2006, the basic economic figures and the peso's exchange rate remained stable. Voss believes that is a positive sign for the future. Mexico is Latin America's biggest economy and one of the major assurgent countries in terms of global competition. According to a current prognosis by the International Monetary Fund and the Goldman Sachs investment bank, China and the US will be tied for first place by 2040, and Mexico along with Brazil and Russia will be positioned ahead of central European countries. The primary beneficiaries of this growth will be a clearly emerging middle class on a worldwide scale.

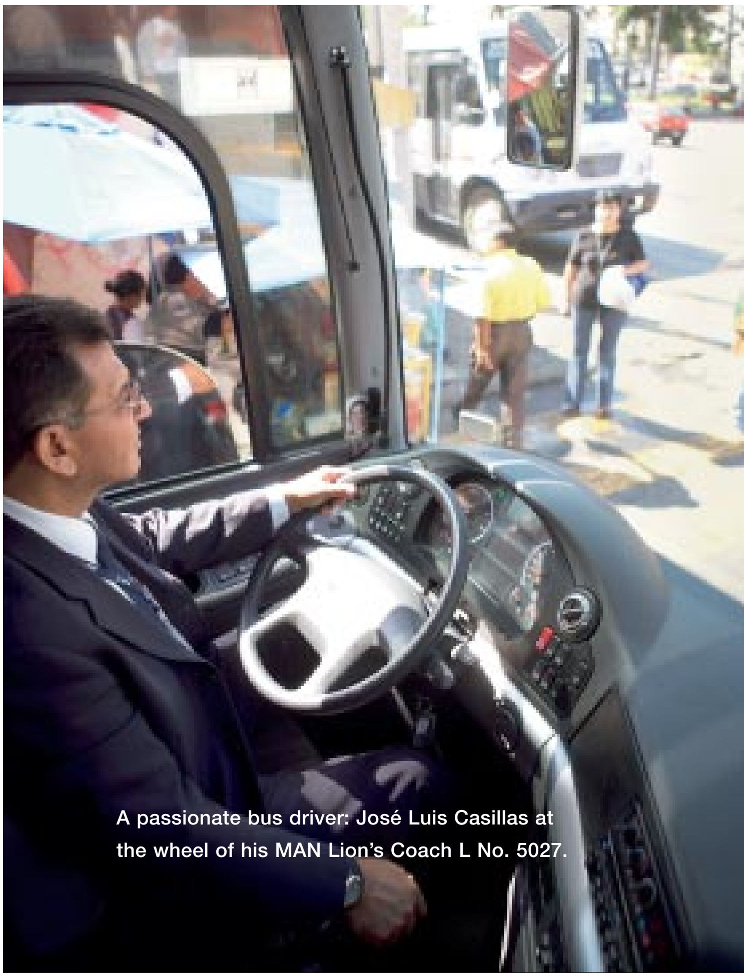
MOBILITY IN MEXICO—A LARGE MARKET FOR MAN

11,000 new buses, consisting of 9,000 city buses and 2,000 travel coaches, are registered every year in Mexico. Business is buzzing. Since its market entry three years ago, MAN has already sold over 1,200 frames for travel coaches and obtained the lead position in this segment with 330 units sold in 2006. For the future, MAN's market strategists are eyeing two specific trends in Mexico. One pertains to the transition of the travel coach segment becoming a less expensive travel mode that can compete with budget airlines appearing on the scene. The second trend relates to the observation that the entire city-bus infrastructure in Mexico is in need of an overhaul. MAN's first two bus models produced locally can fulfill current specifications associated with those trends and are already available for purchase. "Our strategic objective is to sell 1,000 travel coaches and city buses per year," says Stefan Söhlemann, director of the Truck & Bus Division at MAN Ferrostaal México. Beyond this plan, MAN Nutzfahrzeuge will also manufacture medium- and heavy-duty trucks for the regional market.

ID cards of ETN bus drivers: Safety and reliability are the primary selling points.



Traveling business-style: a hostess of the Mexican bus company ETN

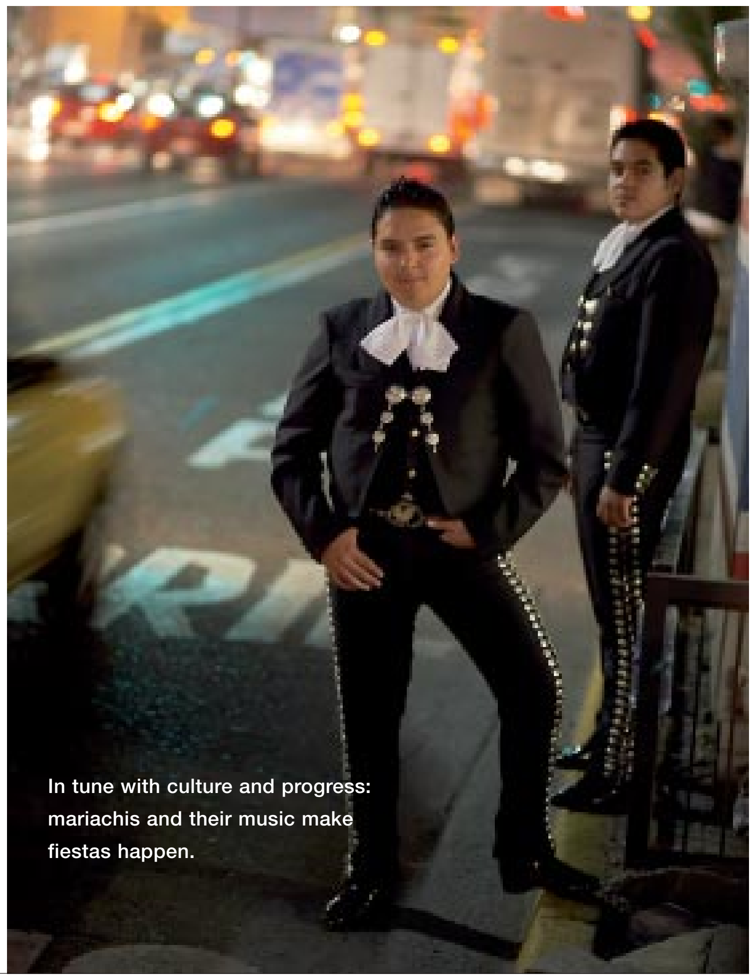


A passionate bus driver: José Luis Casillas at the wheel of his MAN Lion's Coach L No. 5027.

The luxury coach receives a wash and polish before every trip to Mexico City.

Technology for the top-class segment: The MAN Lion's Coach adds a special touch to cross-country trips.


Rush hour in Guadalajara: Mexican society's transformation is reflected in the traffic.


In tune with culture and progress: mariachis and their music make fiestas happen.

Despite the existing divergence between the rich and poor, the Mexican middle class is defining and asserting itself. "The middle class has expanded enormously after ten years of uninterrupted economic stability. Accordingly, bank loans with appropriate interest rates are available to millions of people who may have been excluded from these in the past," says Jorge G. Castañeda, a professor of political science and Latin American studies at New York University and Mexico's Foreign Minister from 2000 to 2003. The German Office for Foreign Trade believes that the development process Mexico is undergoing will give a key role to the service sector, which already accounts for 70 percent of all commercial activity. Employing 58 percent of all working individuals, it also represents the primary income-generating segment in Mexico.

> **"Nowadays, bank loans with appropriate interest rates are available to millions of people who may have been excluded from these in the past."** Jorge G. Castañeda

Rapidly Expanding Infrastructure
The transformation of Mexican society is reflected in its road traffic. The country's road network amounts to 330,000 kilometers, of which only about a third are paved, however. In addition, only a mere quarter of these roads are in good condition, according to the World Economic Forum held in 2005. For that reason, newly elected President Felipe Calderón recently announced to the Mexican Chamber of the Construction Industry that his top priority while in office would be to expand the country's infrastructure, approving a package of 500 construction projects to be executed over the next 25 years.

Because Mexico does not have a major railroad network to speak of, 98 percent of its 107 million people depend on buses for transportation. This means of mobility and mass transportation moves two billion individuals annually. Currently, the Mexican travel coach fleet consists of 39,000 vehicles, 30,000 of which are run by only 100 companies. "It's a very exciting market with a lot of potential," says Stefan Deuster, president and general director of MAN Ferrostaal México, a subsidiary that handles sales and service. Goals are set correspondingly high. Deuster adds, "By 2010, we want to be selling 1,000 buses and 1,000 trucks per year."

The rising middle class with its need for social and road-borne mobility forms a critical market. "The outstanding technology and cost-effectiveness of our products are in demand," says Stefan Söhlemann, director of the Truck & Bus Division at MAN Ferrostaal México. "That partly explains our success. Another significant factor is focusing on the needs of the market and customers on a regional level. That will help the travel coach sector transform into less expensive bus transportation, especially given that the luxury coach lines will have to compete more with budget airlines."

One way or another, Mexico is pressing onward. Our bus driver Casillas has already personally accomplished what he set out to do. "I saw how my mother slaved away for us in a factory," he tells, "and I knew that wasn't for me!" His career path followed a straight line. His uncle let him get behind the wheel at the tender age of 14. "Since that time, driving has been my passion," he says. For the young man, it was also an opportunity to put some distance between himself and a situation at home where money was tight—first as a taxi driver, then as a bus driver. "I wanted to achieve something in my life," he says proudly.

The biggest travel coach company in Mexico is the IAMSA Group that services 30 percent of the overall demand with 18 companies and 8,200 buses. The group's flagship company ETN (Enlaces Terrestres Nacionales) claims it operates the plushest buses in the country. On the Mexican coach market, the firm is in the top league, which is exactly where Casillas decided he wanted to be seven years ago. The complex application and selection process took 45 days, and after it was all done, he was accepted. He proudly wears his dark blue uniform, the starched white shirt and the ETN tie. "My bus and ETN are my future," he says with conviction.

Reliability and safety are the primary selling points for anyone traveling on Mexican roads. Ultimately, the buses need to run on time as scheduled because what the middle class increasingly wants is punctuality. That especially means no breakdowns caused by outdated technology and weary drivers. Casillas' Lion's Coach delivers impressive performance with an aft-mounted, six-cylinder 460-hp engine. The highly sophisticated chassis with independent wheel suspension provides a maximum degree of passenger comfort and low maintenance costs. Modern brake technology comprising EBS (electronic braking system), retarders and MAN Brakematic, as well as other safety features, give the coach all-route capability in any weather. Passengers value that kind of reliability.

Like all ETN drivers, Casillas has to comply with strict maximum driving hours, and he has to pass periodic drug tests. Maintenance on the bus is performed according to stringent regulations. Since 2005, ETN has been operating 30 MAN Lion's Coaches in its fleet. "The Lion's Coach currently offers the best technology for the top-class segment," says company CEO Javier Lopez Barron. Enrique Quesada Bravo, head of Busrent, a company based in Tequila, Mexico, praises the MAN buses: "Our customers demand 100 percent comfort and service. With its fantastic features and accessories package, the Lion's Coach is a perfect fit for what we offer." Casillas is also impressed with the technology. "You used to need pretty big biceps to turn the wheel on one of those older buses," he says, pretending to turn a wheel for emphasis. "Now, I can practically steer with my little finger."

Preferred by the Business Class

Like always, Casillas has the elegant blue-green luxury liner cleaned and waxed at Guadalajara's bus terminal before he takes it on the 900-kilometer main run to Mexico City. "The bus is part of who I am. In the last two years, we have covered 300,000 kilometers together," he says, as proud of his bus now as he was on the first day driving it. His pride stems from the fact that the 14-meter-long three-axle coach is one of the best offered on the market right now. With its fully air-conditioned interior, two-plus-one seating per row, and a total of 24 comfortable seats, it has become a favorite of business-class travelers. The rear of the bus has a kitchenette and two separate toilets for men and women. The most demanding passengers will even find an array of the latest technological features at their disposal. With infotainment provided on the long cross-country trips, passengers can select from a variety of radio stations or videos, and listen to the program via headphones. As it is equipped with wireless LAN, the coach can also take on the role of an office and communications platform on wheels.

> "Customers want comfort and service. Better roads are easier on the chassis and allow drivers to actually drive at the speed limit." Enrique Quesada Bravo

Passengers should be comfortable —and Casillas would not be satisfied with anything less. "I love working with people," he says, "and I treat everyone the same. You greet them with a smile and say good-bye when the trip is over. That's my job. You get what you give." This saying also describes Deuster's experience. "The MAN brand has a good reputation throughout Central America," says the general director of MAN Ferrostaal México. In 2002, he was able to close a deal for NEOMAN for 89 chassis frames that will go to a large-scale bus operator. Those came complete out of the Salzgitter plant in Germany as did another 70 for a follow-up order. In June 2006, MAN's new commercial vehicle assembly facility located in Querétaro, Mexico, became MAN Nutzfahrzeuge AG's first production plant in Central America. "Production in this facility began with 360 units and—over the course of additional phases to be completed by 2010—we will achieve our maximum capacity of 1,000 buses per year. The market is ready for it," says Deuster. In Mexico, MAN already has a 40 percent market share in the bus chassis segment, which establishes the company in the number one position. The next stage will have MAN Nutzfahrzeuge manufacturing heavy-duty trucks, followed by medium-duty ones at a later point in time. In addition, other markets have come into view that can be served from Mexico. Of particular strategic significance are the Latin American member states of the Mercosur Agreement, to which a new sales and service organization will sell up to 1,500 MAN buses per year.

José Luis Casillas is ready to begin his trip from Guadalajara to Mexico City. Before he heads out to the bus, he takes a short moment of reflection in front of a statuette of the Virgin Mary that is housed in a small shrine on one side of the bus terminal. Then he climbs up into the driver's cabin, starts up the engine, and deftly wheels the luxury coach out of its parking bay. Although he's setting off, in many ways he has already arrived—in the Mexico of his dreams.

Mexico's answer to stations and airports in Europe: The bus terminal is the start and end point for every journey.

DANIEL IBARRA, SANTIAGO, CHILE:

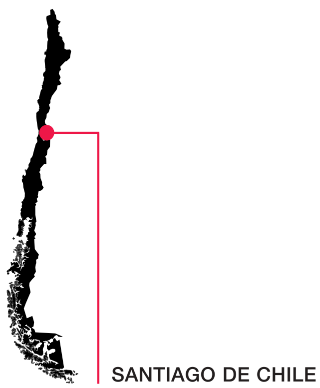
"Ten years ago, it would sometimes be difficult to see the next street intersection, especially in winter. Nowadays, you can almost always see the mountains."

Daniel Ibarra is head of the investments and new projects division at ENAP, Chile's government-owned petroleum company.

Chile in Figures

Population (2006, in millions)	16.4
Gross domestic product per capita (2006, in US$)	8,570
Economic growth per year (average, 2002 to 2006, in %)	4.8
Human Development Index rank	38
Percentage of country's oil demand met by imported petroleum	90–95

Sources: German Office for Foreign Trade; Human Development Report; ENAP



HELPING A COUNTRY AND THE ENVIRONMENT

Chile's energy requirements are growing. MAN Ferrostaal is working with government-owned ENAP to assure the country's future energy supply. Fortunately, the environment benefits from the deal, too.

Daniel Ibarra leaves his home in Concepción at ten o'clock on Monday morning, and sets out for Santiago, some 500 km to the north. The first thing he notices upon his arrival is the breathtaking view of the Andes Mountains rising up to the sky in the east. If conditions are good, he can see Aconcagua, South America's highest peak. "These days, you can almost always see the mountains," says the 48-year-old industrial engineer. The view hasn't always been so clear, however. "Ten years ago, it would sometimes be difficult to see even as far as the next street intersection, especially in winter," he adds. The reason? Smog.

Indeed, Santiago's location could not be less favorable in terms of air quality. The city lies in the center of the narrow country, jammed in between two mountain ranges, and is home to one-third of Chile's population. In the east lie the Andes, the country's backbone, with the coastal cordillera in the west. "The city is essentially nested in this valley as if it were in a bowl," explains Ibarra. If the weather brings thermal inversions, emission gases cannot escape. However, smog has recently become noticeably less of a problem, thanks to the introduction of around 100 collective measures decreed by the provincial government in 1998 to improve air quality.

Ibarra himself participated in one of these measures through his work for the government-owned refinery company ENAP (Empresa Nacional del Petróleo). One of MAN Ferrostaal's partner companies, ENAP is Chile's biggest supplier of petroleum products, aviation fuel and asphalt, as well as refined gasoline and diesel fuel. Besides an expanded subway network and the construction of city thoroughfares, the quality of these fuels plays a key role in improving Santiago's environmental situation.

Less Air Pollution

Robert Molina, spokesperson for the Chilean environmental agency CONAMA, confirms: "The fact that only low-emission eco-diesel is now sold in Santiago has contributed to improving the air quality." This type of diesel contains significantly less sulfur and aromatics than previously permitted in Chile. According to tests performed by CONAMA, the number of days with critical levels of air pollution has decreased by 85 percent.

In summarizing their studies, CONAMA wrote, "Since 2000 the population of Santiago's metropolitan region has climbed by seven percent, the gross domestic product has doubled, and the number of vehicles on the road has tripled. At the same time, the emission of air pollutants has been reduced by almost half." Ibarra was one of the individuals who helped bring this about. As head of ENAP's division for investments and new projects, he is responsible for the refineries that supply the eco-friendly fuels. The company operates refineries at three main locations: Concón, Talcahuano and Punta Arenas. Together, these facilities generate the highest output of refined fuel on the Pacific coast. In fact, 90 percent of the petroleum products sold on the Chilean market originate from ENAP.

Every week, Daniel Ibarra travels between the refineries in Concón and Talcahuano, ENAP's head office in Santiago, and his hometown of Concepción. The facility closest to the capital city is in Concón, not far from the port city of Valparaiso. This region is also home to some of the country's major ports and is a base for many industrial companies. The land is crisscrossed by a system of pipelines that connect the Concón refinery with Santiago and with numerous local distribution points.

Concón is a busy place and host to many construction projects. The existing refinery is the main supplier for the Santiago region thanks to its processing capacity of 100,000 barrels of crude per day. It is presently being supplemented by a delayed coker that ENAP is constructing with MAN Ferrostaal as its project partner. The facility is used to convert

A refinery plant in Concón. Its operator, ENAP, is Chile's biggest supplier of petroleum products.

The newly built delayed coker in Concón. Daniel Ibarra believes that financing for the project was especially innovative.

With facilities in Talcahuano, Punta Arenas and Concón, ENAP has the highest capacity on the Pacific coast.

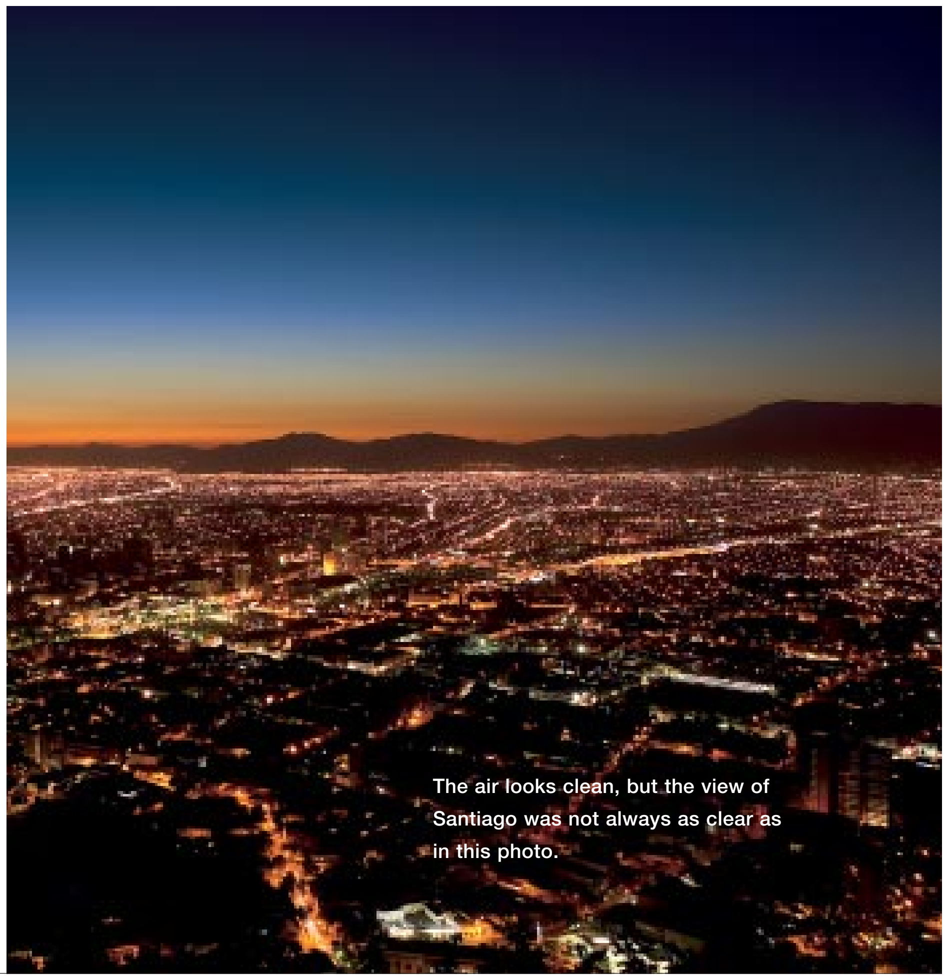
heavy hydrocarbon feedstock into lighter and more valuable products. Edzard zu Knyphausen, head of MAN Ferrostaal in Chile, explains how it works: “The delayed coker breaks the crude oil down into a high-quality raw material that is then processed into various fuels and petroleum coke. The latter is a byproduct that can be sold to electricity generating plants.” MAN Ferrostaal is a member of an international consortium that planned the facility and will turn it over to ENAP as a turnkey operation. In addition to providing lead management at the business end of the project, MAN Ferrostaal is also responsible for supplying the equipment as well as constructing and assembling the facility.

Innovative Financing

With considerable past experience in negotiating contracts and dealing with banks, shareholders and public authorities, MAN Ferrostaal played a significant role in getting approval for the innovative financing concept for the project. Under the concept, MAN Ferrostaal and ENAP jointly serve as investors, owners, borrowers and operators within Enercon, a company created specifically to oversee the construction project. ENAP holds a 49 percent stake in Enercon, with the remaining 51 percent held by a consortium that comprises MAN Ferrostaal and the two Spanish companies Foster Wheeler Iberia and Técnicas Reunidas. End capacity is then sold by Enercon to the end customer, ENAP.

When it came to financing the 430-million-dollar project, 95 percent was provided by an international bank consortium. The operating company then had to come up with only five percent—an unusually low

Santiago’s new financial center. Chile is now also attracting the interest of international investors.



The air looks clean, but the view of Santiago was not always as clear as in this photo.

amount. When the project was put up for bid on international finance markets, interest far exceeded the project's volume. Kai Jacobsen, MAN Ferrostaal's project manager for the delayed coker, explains the reason for the interest: "ENAP is a good company, and Chile is a politically stable country with an excellent credit rating. As a government-owned company, ENAP also benefits from the country's outstanding reputation." The well-known financial magazine Project Finance International designated the project as the "2005 Latin America Deal of the Year."

Journalist Michael Deibert, who wrote about the project in PFI, said: "Some of the key investment considerations were ENAP's 'come hell or high water' guarantee, solid project partners, the project's sound contract structure, and ENAP's commitment to use state-of-the-art technology for an environmentally sound design that meets the highest standards."

Support from Private Investors
The financing model, considered to be fairly complex, is precisely tailored to the requirements of ENAP, which, as a government-owned company, is obliged to aim to ensure that the country is supplied with fuels. "Since the mid-nineties, we, together with our partners, have developed projects that require a small initial investment but at the same time allow us to cover our country's demand for fuel," says Ibarra. The model is innovative and economically advantageous, particularly given that a government corporation is involved, emphasizes Ibarra. "As far as I know, we are one of the first government companies to have received access to private financing of this magnitude thanks to the collaboration with third parties forming a consortium. That is partly due to our partner MAN Ferrostaal being very well positioned internationally, especially regarding project development in the energy sector."

For Chile, investments such as the one in the delayed coker are crucial. "Chile is an emerging nation, and its average annual growth of six percent over the last 20 years allows it to claim the highest growth rate in Latin America. This may seem low compared to tiger economies, but for us, it's really a Chilean miracle," says Joseph Ramos, dean of the Economics Department at the University of Chile in Santiago. In a country that was once primarily an exporter of mineral resources, a burgeoning domestic industry is beginning to take hold whose energy needs are met by petroleum products. At the same time, the standard of living is also improving. An increasing number of Chileans own a car—whereas, 20 years ago, just 18 percent of the population had cars, today that figure stands at 40 percent. In addition, a greater number of homes are now being built with central heating.

> "Thanks to our competent partner, we are one of the first government-owned companies to have access to private financing." Daniel Ibarra

Indeed, Chile's energy needs are growing steadily. Even though it can also tap the electricity generated by its many hydroelectric plants located in the mountains as an energy source, the country must rely on imports, especially for fuel. Eighty percent of its oil is imported, which is worth about US$4 billion a year. As such, oil alone accounts for one eighth of the country's total import volume. Furthermore, Chile does not want to be dependent on only one source of energy and one supplier. The past several years saw repeated bottlenecks in the delivery of imported natural gas.

Irregular Supplies from Argentina
Chile currently has an agreement with Argentina governing the supply of natural gas. However, the neighboring country was not always able to fulfill the contracts, which resulted in delivery bottlenecks.

When it comes to Chile's economic growth, this lack of energy is its Achilles heel. As such, the work of Ibarra and his colleagues is of strategic significance to the country. Industrial companies in Santiago's metropolitan region who used to operate machines and furnaces primarily with natural gas are now able to switch over to a diesel-powered operation. "It is thus all the more important that these fuels are high quality and do not cause further air pollution," says Ibarra.

The idea is both simple and coherent: Chile's increasing demand for energy should not simply be satisfied by any means possible, but rather by a method that ensures citizens do not have to accept a lower quality of life. As long as they can see the mountains, the future of Santiagans looks healthy.

ABDULRAHMAN MOHAMMED AL-SUWAIDI, RAS LAFFAN, QATAR

"Working for Oryx GTL affords me entirely new possibilities. It is quite a unique experience to lead the first GTL plant in the country."

Abdulrahman Mohammed Al-Suwaidi is Deputy General Manager of Oryx GTL Limited.

Qatar in Figures

Population (2006)	743,000
Gross domestic product per capita (2006, in US$)	46,300
Economic growth per year (average, 2002 to 2006, in %)	5.7
Human Development Index rank	46
Forecast for GTL daily production, worldwide (2015, in barrels)	600,000

Sources: German Office for Foreign Trade; Human Development Report; Sasol Chevron

ENERGY CITY ON THE ARABIAN GULF

The wealth of natural gas in the desert nation Qatar means that enormous gas-to-liquids production plants are springing up everywhere. The experience gained from these projects is paving the way for new, environment-friendly fuels.

Ras Laffan, ten o'clock in the morning. Abdulrahman Mohammed Al-Suwaidi is enjoying the view from his office window at the administration building: the first major gas-to-liquids (GTL) production plant in Qatar lies before him. This impressive plant is part of the Ras Laffan Industrial City, the ever-expanding hub of the state-run natural gas industry. Situated 80 kilometers northeast of Doha, the capital of Qatar, Ras Laffan was created from the ground up in 1997. For Al-Suwaidi, Ras Laffan and Oryx GTL Ltd. are more than a workplace: "Even as an undergraduate I was already concentrating on all disciplines that had to do with the oil and gas business," says Al-Suwaidi, who is Deputy General Manager of Oryx GTL. "This was where I saw my future. And my dream came true." Oryx GTL is a milestone for the ambitious engineer, as well as for Qatar on its way to become the world's GTL capital.

World's Largest Natural Gas Field
It's a claim that's solidly grounded in reality. With access to 900 trillion cubic feet of natural gas located below the ocean floor, the country's North Gas Field constitutes the largest in the world. GTL technology makes it possible to transform the raw material into almost sulfur-free synthetic fuels such as diesel, or other energy products. The gas processing technology has been known since the 1920s, but only now have technical advances, massively rising crude oil prices, shrinking deposits and stricter emissions standards come together to enable GTL to make its commercial breakthrough.

The advanced GTL production facilities, operated as a joint venture by the state-owned Qatar Petroleum and the South African petrochemical firm Sasol Ltd., were built in just four years in this rocky desert terrain. The daily production of 24,000 barrels of diesel, 9,000 barrels of naphtha and 1,000 barrels of liquid petroleum gas would not be possible without the pioneering spirit of such companies as Sasol (PetroSA) and Shell. They are advancing GTL research with their plants in Sasolburg, South Africa, and Bintulu, Malaysia, respectively.

Compelling Economic Arguments
These companies have provided the first economic arguments in favor of GTL research. "In the beginning, gas-to-liquids was only seen as a technology that would turn previously unprofitable gas fields into economically viable resources. Since then it has also played a role in energy conversion, political risk distribution in oil supply and improving air quality," reports Jack Jacometti, responsible for global GTL development at Shell.

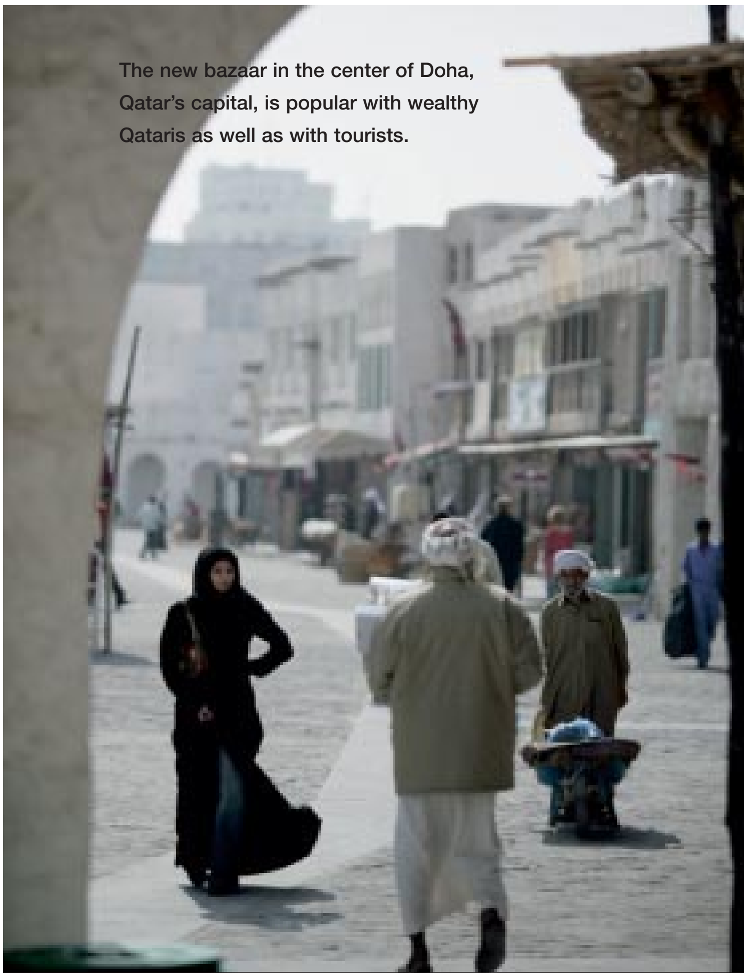
These are the aspects that the MAN Group is also pursuing in this future growth market, as their well-filled order books show. Extensive references in compressor and turbine engineering, as well as with reactors and plants, paved MAN TURBO's road to Qatar, where a new service facility is now being built as well.

The machine company delivered key components to Oryx GTL from Oberhausen, Germany, for the air separation plants, which extract the oxygen required for synthetic gas generation. In a complex technical process, these use compressors to break up air into its basic components and then make these basic components available to the customer for further use. Each of the two turbo lines from MAN TURBO consists of an axial compressor, a steam turbine and a radial compressor, and are currently the largest in the world.

From the Ruhr to Ras Laffan
The enormous package—24 meters long, 12 meters high, eight meters wide and weighing a good 500 metric tons—was assembled on a steel foundation along with the compressor control system and associated infrastructure. These then traveled all the way from the River Ruhr in Germany to Ras Laffan. Eight turbine lines were ordered in August 2006 for the new gas-to-liquids plant, Pearl, which Shell is building in Qatar. It is the largest order in MAN TURBO


Huge turbines and reactors weighing many tons are among the core components of the Oryx GTL refinery.


Engineer Al-Suwaidi seated in front of portraits of Qatar's Emir, Sheik Hamad bin Khalifa Al-Thani, and his son.


The new bazaar in the center of Doha, Qatar's capital, is popular with wealthy Qataris as well as with tourists.


The City Center of Qatar's capital: Clear legislation, political stability and first-class returns on investment.

company history. The basis for such an order is MAN's own center for the assembly and testing of large machine sets, with which the company keeps functionality in focus. "The major oil companies place a high value on security of supply," says Dr. Raimund Lösch-Schloms, who heads the business unit at MAN TURBO that is also responsible for major air separation plants. "They demand sound, proven capability."

Core Components from MAN DWE
Guaranteed process reliability and premium quality also tipped the balance to allow MAN DWE, a member of the MAN TURBO Group, to win the contract to build twelve reactors for the Fischer-Tropsch synthesis process for Pearl GTL Ltd. In addition to the air separation lines, these reactors form the core of a GTL plant. The specialists, from Deggendorf, in the German state of Bavaria, have over 50 years' worth of experience building reactors. The conversion of gas or biomass into liquid fuels has meant new applications for the fixed-bed multitube reactors, which can weigh up to 1,500 metric tons. "Our research and development department has been working in this area for more than ten years," notes Dr. Josef Dachs, CEO of MAN DWE.

This know-how is an important factor when it comes to new orders, given the expanding market for GTL. A Sasol Chevron study suggests that by the year 2015, the entire GTL industry could supply some 600,000 barrels of diesel fuel a day. That corresponds to the production of 26 plants the size of the Oryx GTL one. Qatar Petroleum considers a million barrels of GTL a day by 2020 to be a realistic goal. But since a considerable increase in global fuel demand is also expected at the same time, this may account for a mere three percent of the global market for diesel and other GTL products, such as naphtha. "Mixed with conventional diesel fuel for use in public vehicles or large population centers, the lack of sulfur in synthetic diesel can help meet the ever higher demands for air quality and rising emissions standards for automobiles," suggests Jack Jacometti of Shell. In addition, special diesel engines could be designed that would have lower emissions levels than engines that run on conventional diesel fuel. In the automobile industry, the interest in such solutions is high, and it is stimulating the developments in the Arabian Gulf. Every day more workers commute between their residences in the surrounding area and the huge Ras Laffan construction site. Industrial installations are sprouting up left and right around the country's rich natural gas deposits.

"The lack of sulfur in synthetic diesel can help meet the ever higher demands for air quality and rising emissions standards." Jack Jacometti, Shell

Renaissance of a Technology
The list of upcoming GTL projects is growing constantly. In addition to Shell's Pearl project, which is to start production in 2009 or 2010, ExxonMobil is planning a 150,000-barrel-per-day facility, to be completed by 2012. For Deputy General Manager Al-Suwaidi, the focus is different. "Soon, we want to raise daily production rates from 34,000 barrels to 100,000," he says.

German chemists Franz Fischer and Hans Tropsch, from the German city Mülheim an der Ruhr, could hardly have envisioned this development. As early as 1920 they had developed the Fischer-Tropsch synthesis process for use in the recovery of liquid hydrocarbons in order to make greater use of local resources and thus to become independent from energy imports. This technology makes it possible to produce synthetic diesel not just from coal (CTL) but also from natural gas (GTL) and biomass (BTL). The range of such products is growing, and every region can thus make the best possible use of its raw materials.

Growing Trend, Diverse Resources
"That's why in countries with extensive coal reserves, such as China, there are currently numerous coal-based projects being carried out," reports Dr. Gerhard Beysel, who is in charge of developing and marketing air separation plants at Linde AG in Wiesbaden, Germany. "And the trend is growing." He goes on to note that coal provides the basis for many derivative products when it is made to react in a specific way with oxygen under pressure. This gives rise to synthetic gas, which can be used in gas-turbine power plants to generate electricity. The alternative further processing of the synthetic gas into liquid fuels using the Fischer-Tropsch process is an area of interest in China for the near future. "From a global perspective, GTL and CTL currently show the most promise for

An Indian-born Muslim sells birds of prey from all over the world. Doha's new mosque can be seen in the background.

becoming established on the liquid fuel market in a time of rising crude oil prices," says Beysel.

But although commercial plants for biomass fuels are not yet in place, the pilot projects' next phase of development is in full swing. This was impressively demonstrated at the second BTL Congress held in Berlin by Germany's Agency for Renewable Resources (German acronym: FNR) in October 2006. There, Brian Tait, Manager of Alternative Energies at Sasol Technology in South Africa, characterized the worldwide construction of GTL and CTL plants as "a crucial step on the way to the establishment and economic acceptance of BTL plants."

Climate-Friendly Fuels

Fuels produced from biomass help reduce dependence on fossil energy sources. They also contribute to climate protection since these fuels are practically CO_2-neutral when burned. This is the reasoning behind the provision under an EU Directive calling for biofuels to make up a ten percent share of all fuels used by the year 2020—a goal that FNR sees as realistic. In Germany, biomass-generated fuels could constitute roughly 25 percent of fuel use. As to the question of whether technical development and economic conditions will actually allow an order of such magnitude, the current GTL projects may provide the initial answers. Abdulrahman Mohammed Al-Suwaidi doesn't need to be a psychic to predict continued growth in Qatar. "Investors love our country for its political stability, its clear legislation and outstanding returns on investments," he says. "Oryx GTL is just one example."

ASHISH SHAH, PUNE, INDIA:

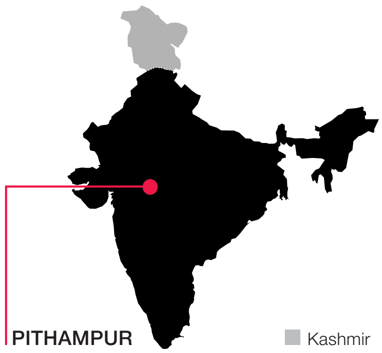
“Sometimes I feel like a kid who climbs over a wall and sees a whole new world on the other side. This is the knowledge I want to share with my colleagues.”

Ashish Shah is a research and development manager with MAN FORCE TRUCKS Private Ltd.

India in Figures

Population (2006, in billions)	1.100
Gross domestic product per capita (2006, in US$)	769
Economic growth per year (average, 2002 to 2006, in %)	7.5
Human Development Index rank	126
Public expenditure as percent of the GDP	3.5

Sources: German Office for Foreign Trade; Human Development Report




Now,
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THE NEW KNOWLEDGE WORKERS

The economy on the subcontinent is roaring. Experts are predicting that India will make a leap from an agrarian society to a knowledge society. The great potential posed by a well-trained workforce is particularly appealing to investors.

Ashish Shah is still not satisfied. It's ten o' clock on Monday morning and the young engineer and R&D manager at MAN FORCE TRUCKS (a joint venture between MAN and the Indian carmaker Force Motors Ltd.) is poring over a work order for a textile wholesaler. The new trucks are to be equipped in such a manner that they can carry as much cargo as possible, and that they can be easily loaded and unloaded. "How can our truck help the customer to earn more money? This question fascinates me because it gives me an opportunity to apply my knowledge of technology and business at the same time," says Shah.

Shah's desk stands in a large open office. Around him, other engineers are developing similar transportation solutions—six days a week, two shifts per day. In front of the plant gates, a traffic jam is forming, consisting of rickshaws, soot-belching trucks, cars and holy cows. Shah started his studies at the Institute for Weapons Technology in Pune, where he was the first civilian to receive a gold medal for outstanding work. Then he added an MBA from the University of Pune. With his academic background, Shah represents a change in the Indian economy, just like customer orientation is revolutionizing the country's automobile industry. For decades, the market ran virtually on socialist principles and goods production was limited to items that had proven their worth. Even today, Ambassadors roll along India's streets—the car is still built according to Morris Oxford's blueprints dating from 1948.

Timely Technology Transfer

Tourists also love taking pictures of the brightly painted trucks whose cabs are customized and lavishly decorated like temples. However, their time is running out. "I fear that the colorful trucks are facing extinction," laughs Sudhir Mehta, director of Force Motors. In 2008 a new law will come into effect, governing the configuration of truck cabs. Certain characteristics like wooden superstructures will be forbidden. The 150-million-euro MAN–Force Motors joint venture plans to tap the new market created by the law. It will produce trucks in the heavy-duty range of 16 tons and upward for the Indian market, equipping them all with the latest technology.

In April 2006, MAN FORCE TRUCKS inaugurated its plant in Pithampur in the state of Madhya Pradesh. The headquarters facility in Pune no longer had space for a project of this magnitude. Approximately 1,500 people will work in Pithampur once the plant is operating at full capacity in 2007. The product line includes long-haul trucks, tractor-trailer rigs, dump trucks, specialty vehicles, as well as commercial vehicles with various axle combinations. The MAN D08-series engines also satisfy the Euro 3 emission standards. "Ten years ago, Force Motors would not have been able to sell modern trucks. No one gave a thought to safety or cost-effectiveness back then. The only thing of interest was the purchase price. At the time, no one was open to what was going on in the rest of the world," remembers Shah.

But it's not just the automobile industry which is now on the up. Ever since India opened its markets in 1991 under the former Finance Minister and current Prime Minister Manmohan Singh, aggressively pursuing the privatization of ailing government-owned companies, a number of sectors have been given a boost. "There's a great deal happening in the continent right now," says Bernhard Steinrücke, the executive director of the German-Indian Chamber of Commerce in Mumbai. He adds: "We have growth rates of eight to ten percent, an exceptionally well-educated middle class, and young people with high ambitions. India's strength is the potential of its highly educated workforce."

A Knowledge Superpower

New Scientist magazine even wrote that India is on its way to becoming a "knowledge" superpower. Indeed, the country has evolved impressively in


A favorite tourist attraction: India's truck drivers are fond of decorating their vehicles.


Combining his knowledge of technology and business: Ashish Shah inspects truck components for the Indian market.

the last few years, which gives hope that the subcontinent could skip the industrialization phase entirely and make a direct transition from an agrarian society into a knowledge society.

However, India is not quite there yet. Education has become the mantra of the new and growing middle class, yet only about eight percent of 18- to 24-year-olds go to university, and 39 percent of the population is illiterate. Competition for the few places at the state-run universities is as tough as it gets. Those who can afford the costs send their children to study abroad. "Only three academic institutions in India are ranked internationally, and none are traditional universities," complains Pratap Bhanu Mehta, president of the Center for Policy Research in New Delhi.

Increasingly Innovative Climate

In addition, Indian science was hard-pressed to apply its findings in practical matters. This is because the period of a quasi-socialistic economy rarely provided much stimulus for innovation. The consequences of this can be highlighted with Shah's example: Indian cement mixers are still being operated with two engines on board—one for the truck and the other for the cement mixing machine. "This configuration is due to the fact that the engines of domestic trucks are too weak to operate both," he says. The end result is more weight on the truck, higher fuel costs and less space.

Despite such drawbacks, the percentage of the private sector's contribution to India's expenditures for research and development is still relatively low. Companies like the

A sign of the times: high-tech products are tailored to suit the needs of the Indian market.

With their office running two shifts, Shah and his colleagues work on transport solutions for their Indian customers.

MAN and Force Motors joint venture are trendsetters, paving the way for India's transition to a knowledge society. "For the first time, we're putting an engine in a truck that can power both the truck and the cement mixer simultaneously. Our customers are thus able to decrease their costs by about 25 percent," says Shah proudly. Force Motors is doing more than bringing German technology to India. The company is also active in the training realm. "We send our people to MAN in Germany so they can learn from a technology leader," explains Sudhir Mehta. In addition to European technology, young knowledge professionals are keen on studying sales and organizational methods. They believe it's worth the effort, even if some of the things that work in Europe cannot necessarily be applied to India.

Dealing with Different Conditions

For example, the planned truck-driver training course will not take place in Germany. "Indian roads are not German highways," says Sudhir Mehta, chuckling. His point is made clear looking at the test track that Force Motors has laid out at its headquarters facility in Pune. The track is able to simulate the often disastrous quality of Indian roads—when it rains, one section with potholes more closely resembles a waterslide than a street. It is so bumpy that driving on it is expressly permitted only on an empty stomach. "Truck operators who want to be successful in the Indian market have to learn to deal with these conditions," says Shah.

A Tradition of Cooperation

Besides recently getting married, 28-year-old Shah saw another dream come true when he went to work for MAN FORCE TRUCKS. "As an engineer, one automatically looks to Germany because the country is so technologically advanced." And it's not just "fantastic on a personal level" to learn about another culture, lauds Shah. "I also have the feeling that I'm collaborating on something that will still be around in 100 years' time," he adds. "It's something I can tell my grandchildren about."

The German-Indian collaboration gives the down-to-earth young man an opportunity to stay in his home country and still be involved in the latest technological developments.

In contrast to many of his friends, he has not been forced to move away. "I think that India's industry has a charm and beauty of its own," he says. With such an attitude, he fits in perfectly at Force Motors, MAN's partner in India. Force Motors is a company that has a long history of cooperation with Germany, while still maintaining its roots in India. Its founder, N.K. Firodia, a freedom fighter and Gandhi's "comrade in non-violence" founded the company in 1950 with the German partner firm Vidal & Sohn. Using the chassis of the three-wheeled Tempo Hanseat, he developed the auto-rickshaw that is still a regular fixture on India's roads.

Now employing more than 8,000 people, the company has always sought to cater to Indian customers, according to Firodia's philosophy. To this day, MAN can still benefit from that approach. With a population of more than one billion, modern India is a gigantic domestic market that is starved of high-end quality. "In terms of capacity, the market in India can be compared to the expanded EU. Its size and strength are frequently underestimated," says Steinrücke. For that reason, MAN FORCE TRUCKS has "consciously decided to manufacture in-country, in order to serve the regional market in particular. We are the first truck maker to produce European quality in Pithampur at Indian prices," says Sudhir Mehta.

> **"India is not just some inexpensive manufacturing location. It also has high-quality management, engineering and technology capacities."** Abhay Firodia

True to that statement, 90 percent of the components are produced locally, and many of these come from one of the 100 suppliers. "India's infrastructure is getting better and we need a complete product range," explains Abhay Firodia, Chairman & Managing Director of Force Motors Ltd.

MAN FORCE TRUCKS has a roving eye that is already looking beyond India. Fifty percent of Pithampur's planned annual production of about 240,000 vehicles is destined for export to Asia, Africa and, in cooperation with MAN Ferrostaal, to Latin America. "India is not just some inexpensive manufacturing location. It also has high-quality management, engineering and technology capacities," says Firodia. With those elements on its side, the MAN and Force Motors joint venture and Ashish Shah are primed for success. ∎

ANNIE HAO, SHANGHAI, CHINA

"China needs modern technology for progress—just as I require a reliable partner. Together, we will become world-class."

Annie Hao, shipbroker in Shanghai.

China in figures

Population (2005, in billions)	1.31
Gross domestic product per capita (2005, in US$)	1,714
Economic growth per year (average, 2001 to 2005, in %)	10
Human Development Index rank	81
Value of new shipbuilding projects (2004, in billions of US$)	7.4

Sources: German Office for Foreign Trade; Human Development Report; VDR (German Shipowners' Association)

A SUPERTANKER SETS SAIL

In just one decade China's shipyards have risen in international rankings to take third position. Shipbroker Annie Hao has been in the picture since the start. For MAN Diesel, she provides a key gateway to the country's market.

Shanghai, 10 a.m. Annie Hao has already been at her desk for a few hours, making phone calls, reading reports and working through e-mails. The broker remains in ongoing contact with her customers. From her office in the gleaming, bustling Pudong district of Shanghai, she has a view of the glittering facades of high-rise buildings in the city's new business sector, with its six-lane streets and cleanly swept sidewalks. Shanghai is booming and so is the industry in which she has quickly worked her way upward. Hao does not work in a modern high-tech sector, however, but in a gritty industrial segment that is typically associated with steel, heat, hard labor and the penetrating smell of oil. Hao is a shipbroker, and her customers build ships. The urbane woman in her mid-30s manages supply-and-demand-type transactions for shipping companies, ship suppliers and dockyard owners from around the world—and she is highly successful in doing it.

A Booming Shipyard Industry

Hao's success story exemplifies how much Shanghai's rise to become a Chinese boomtown is, without doubt, a result of the country's industrial base. A designated special economic zone with a population of two million, Pudong is home to the high-technology parks where some of the world's leading companies are diligently working on product development. It is also the central hub for many companies that achieve their revenue by selling old economy-type products. The centers of Chinese shipbuilding are either located in Shanghai itself or a stone's throw away in the adjoining provinces of Jiangsu and Zhejiang. Within only a decade, China's shipyards have come out of nowhere to occupy the number three position in international shipbuilding. The government in Beijing has announced the target to become the industry leader by 2015.

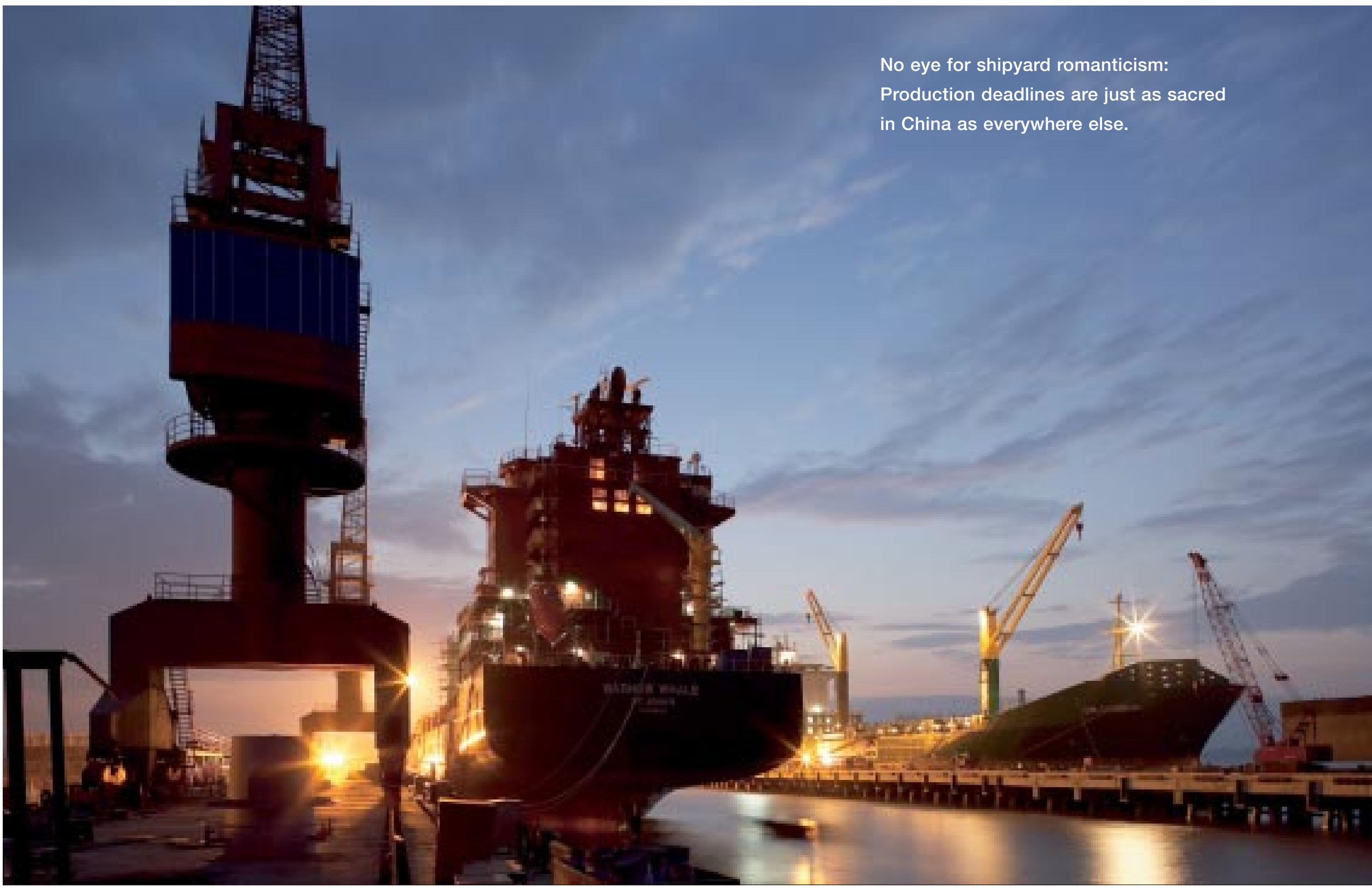
Currently, the most impressive symbol of this ambitious goal can be seen from the top of Pudong's business towers on a clear day: the island Changxing in the Yangtze delta. Here, the world's biggest shipyard is being built along eight kilometers of coastline. It features seven dry docks—each big enough to house the construction of a supertanker. Incidentally, many of these Very Large Crude Carriers (VLCC) are driven by MAN engines. Indeed, Annie Hao's career is closely tied to MAN Diesel's commitment in China. When Hao, mother of a two-year-old girl, recounts the fact she was responsible for 82 MAN engines being delivered to Chinese shipyards, she does it with a mix of pride in her country's dynamism and admiration for the sense of duty commonly associated with the Germans. "Continuity and reliability are the hallmarks of our collaboration," says Hao.

In the meantime, Hao has developed into something more than a shipbroker, for she is also a shareholder in the Ouhua shipyard that went into operation on an island off the province of Zhejiang. "I just hold a symbolic stake," she says, smiling with typical Asian modesty.

> "Today, our order books are full and we have a backlog of several years."
>
> **Klaus Graf, MAN Diesel's sales manager responsible for Asia**

While Hao pores over the blueprints for a new container ship in an air-conditioned office in Zhejiang, hundreds of workers wearing yellow hard hats are assembling the first components of the ship's hull in a nearby dry dock. The din is deafening. High-performance flame cutting machines slice steel plates to the proper size. Computer-controlled hydraulic presses then give the plates the shapes required for the hull. Fully automated welding robots join the plates together with welds, which, if measured end to end, would be several hundred kilometers long. Finally, cranes gently lower the huge diesel engines onto

Formerly an employee and now a company boss: shipbroker Annie Hao in a meeting with her staff.



No eye for shipyard romanticism: Production deadlines are just as sacred in China as everywhere else.

It takes eight to ten months to build a container ship or bulk carrier.

their beds deep in the vessel's belly. MAN Diesel has already obtained orders for 44 complete drive systems from the Ouhua shipyard, with additional orders pending. Admittedly, only a few of the 60-odd shipyards manufacturing ocean vessels in China are on a similar technological level. And yet: the state-of-the-art Ouhua shipyards are sending a very clear signal to competitors in Europe, Korea and Japan: China is catching up!

Difficult Market Entry

Even though MAN Diesel's business dealings with China might convey the impression of smooth sailing, things were far from easy during the time period of first entering the market. When Hao and MAN Diesel first crossed paths in the early 1990s, Klaus Graf, MAN's head of sales in Asia, had already been trying to sell marine engines in China for quite some time. With sales brochures and materials under his arm, he traveled from one shipyard to the next for one-and-a-half years without having received a single order to show for it. "We were very close to just giving up," remembers Graf. Then he met Hao. A recent university graduate, who had majored in international trade, Hao had just been hired by one of the powerful government-owned export companies that had a monopoly over all of the country's international economic contacts at the time. Graf and Hao signed a contract for the delivery of eight drive systems. In that same time frame, China's export boom kicked in and generated a rapid increase in the demand for ships suitable for the high seas. This resulted in a reversal of fortune for Klaus Graf. "Today, our order books are full and we have a backlog of several years," the MAN manager is satisfied to report.

MAN Diesel sells large two-stroke engines, with outputs of about 100,000 kilowatts, that are built by licensees. These power plant packages are big enough to propel the biggest container ships through the seas. Smaller four-stroke diesels with an output of up to 24,000 kilowatts, which can be used either as main or auxiliary drive systems, are used to power smaller cargo and passenger vessels. Presently, China accounts for an important part of MAN Diesel's foreign trade. And the importance is increasing all the time. Hao has also benefited from the growing business. Four years ago, she founded her own company, retained MAN as her most important customer, and now employs 18 people.

Obviously, the shipbuilding boom is not limited to China alone. The demand for container ships, oil and gas tankers, and bulk carriers has never been higher. London-based Clarkson Research Services estimates that the order volume is about 5,400 ships with a combined value of $264 billion. In 2005 alone, shipyards worldwide picked up $100 billion worth of orders for new ships. The tremendous demand has caused ship prices to rise. Intent on taking advantage of the upswing, China is expanding its dry dock facilities and generating additional capacity. According to Lloyd's Register, a London-based classification company, Chinese yards account for 14.8 percent of new ships being built worldwide. This figure puts the country in third place internationally, behind Korea with 34.5 percent and Japan with 28.9 percent, but well ahead of EU countries with 10.7 percent.

China's shipyard industry is essentially run by two state-owned companies. According to the German Shipowners'

CHINA: A HISTORICAL SEA POWER

Shipbuilding in the region surrounding Shanghai has a history that dates back to the Ming Dynasty (1368–1644). At one time, dockyards in Nanking, located on the Yangtze River, built the most sophisticated vessels of their time, and the city has preserved some of the yards to the present day. The wooden ships were well over 100 meters long and were employed by Admiral Zheng He in 1405 on his first of seven major ocean voyages that took him from China's southern waters to the Indian Ocean, the Red Sea and East Africa. As a size comparison, Columbus's Santa Maria, which he used as a flagship on his voyage yielding his discovery of the American continent some eight decades later, was only 25 meters long. Chinese shipbuilders were far more advanced than the Europeans when it came to ship size and marine technology. In addition to nine-masted flagships with their red sails, they built war ships and sophisticated cargo vessels to carry horses and supplies. Zheng He had his fleet loaded up with porcelain, silk and other valuable goods for trading purposes. However, only three decades after the first expedition, China's rulers lost interest in navigating the oceans.

Association (VDR), they employ a total of 255,000 people, though not all work directly in shipbuilding. According to a government decree from 1998, the newly created China State Shipbuilding Corporation (CSSC) and the China Shipbuilding Industry Corporation (CSIC) have carved up the market between themselves. CSSC owns the shipyards in the southern part of the country, with main centers in Shanghai and Guangzhou. Its major shipyards include the Jiangnan Shipyard, Hudong-Zhonghua Shipbuilding and the Guangzhou Shipyard. The shipyards in the northern part of the country are run by CSIC and include the Dalian Shipyard, the Dalian New Shipyard and Bohai Shipbuilding. CSSC's showcase project is Waigaoqiao Shipbuilding, a massive shipyard located on the Yangtze River. It began operations in 2001, just two years after construction began. In the meantime, the second expansion stage to 2.1 million square meters is almost completed. CSIC and CSSC are MAN Diesel licensees for the production of marine engines. In addition to expanding their yards, both companies are also increasing the scope of their engine manufacturing licenses. Besides these two government-owned corporations, there are other shipyards aggressively pushing into the world market.

"Even Korea, which is the leader in construction of large container ships, needs to prepare for increasing competition." Financing expert Ingmar Loges

Manpower as a Key Factor

German shipowners have had their vessels built in China for quite some time now. That shouldn't come as a surprise given China's inexpensive labor force. In Chinese shipyards and depending on the model and level of manufacture, wages make up only five to ten percent of the overall costs. The German association for shipbuilding and ocean industries (VSM) claims this is half of what they would be in Germany, even though Chinese shipyards utilize many more workers than German ones. Currently the demand for the construction of new ships is so high that despite the huge expansion of China's capacity, competition has not intensified. To offset lower wage costs, traditional shipbuilding countries have been able to specialize in a higher level of quality. For example, Korean shipyards are world leaders in the construction of supertankers and mega-sized container ships. The Europeans have the lead in the cruise and special-purpose ships segment. Japan has secured its market share by focusing on the more inexpensive serial production of bulk carriers, as well as concentrating on quality and customer orientation. Still, the companies that may have held a monopoly in former times are increasingly witnessing the disappearance of their technological superiority. China's modern shipyards are not only equivalently outfitted, but they are advancing into new areas. "They have moved beyond producing simple types of vessels. They are also catching up in the construction of specialty ships," says Ingmar Loges, an expert in ship financing at the HypoVereinsbank. She adds, "Even Korea, which is the leader in the construction of large container ships, needs to prepare for increasing competition." Although productivity is still considerably higher in Europe, Japan and Korea, this head start is shrinking ever more. According to Clarkson Research Services, the current worldwide order level of 146 VLCCs has been distributed almost evenly among Korea (56), Japan and China (with 45 each).

What does the future hold? "If demand should drop, the incredible expansion of the Chinese shipbuilding industry will result in a very dramatic competitive situation in the other countries," predicts the VSM expert Gerhard Carlsson. That would make solid positioning important. "Europe's shipyards need to focus on top-quality ships in response to China's rise to ship-manufacturing prominence. Product mix and the ability to build ships by means of serial production will play a bigger role in the future as far as international competition goes," adds Loges.

Growing Trust

As long as the boom holds, Annie Hao will continue traveling a lot. She now spends half the year in her Shanghai office, the rest at her Beijing branch or visiting shipyards. She also meets with customers in Germany two to three times a year. If the order situation were to fall off, her business relations would be put to the test. "Then I would make use of my long-term partnerships," she says. Graf, who has already taken her daughter in his arms, qualifies this further: "Annie is a very reliable partner. She is a tough negotiator—but always fair and considerate." ∎

Despite extraordinarily high use of manual labor, building a ship in Chinese dockyards is relatively inexpensive.

The propulsion triad features the engine, drive shaft and propeller. Here, workers install blades on a variable-pitch propeller.

Shipyard workers start their shift at Ouhua Shipbuilding in Zhejiang.

MAN Group

- Our field of activity: “Transport-Related Engineering”
- Our business areas: Commercial Vehicles, Diesel Engines, Turbo Machinery, and Industrial Services

Industrial Governance

- Centralized strategic management
- Operational responsibility lies with the business areas
- Strategy and structure, leadership supply, and performance controlling
- Clear objectives regarding return on investment

The Strategy

- Every corporate area will be measured against the best performer on the market and must continue to improve performance within the Group; there will be no cross-subsidization.
- Profitable growth through expansion in growth markets worldwide
- MAN strives for long-term success on behalf of its customers, investors, employees, and the company.

MAN Nutzfahrzeuge
The company continues to grow. Commitments in new markets are paying off (starting on pg. 66).

MAN Diesel
There is a strong demand for marine engines as well as stationary engines for power plants; an increase in net earnings reflects this trend (starting on pg. 74).

MAN TURBO
With an expanded product portfolio and a global network, the company is strengthening its competitive advantages (starting on pg. 80).

MAN Ferrostaal
The industrial plant construction business is booming, and the services unit is gaining steam, too (starting on pg. 86).

“We probably have the most complete product program of all truck manufacturers. And there will be more new products coming out this year.”

Anton Weinmann, CEO MAN Nutzfahrzeuge (see interview on pg. 72).

MAN NUTZFAHRZEUGE: GROWING AT MAXIMUM SPEED

MAN Nutzfahrzeuge chalks up another year of record profits. The company features a complete array of 7.5-ton to 50-ton trucks. Its strong presence in international markets is proving more and more beneficial.

MAN Nutzfahrzeuge has a clear objective it wants to achieve by 2010: it wants to ship at least 100,000 trucks and 10,000 buses worldwide annually. With sales of 79,822 trucks and 7,338 buses in 2006, the company seems to be well on its way toward accomplishing its goal. Overall, the company posted sales of €8.7 billion. Currently, MAN Nutzfahrzeuge manufactures 15.9% (15.6% last year) of the trucks sold in the over-six-ton category in Europe. Business in the bus and bus chassis segment has also increased, with MAN and NEOPLAN achieving sales of €1.5 billion last year.

Commitments to New Markets
As important as the European domestic market is for the company, the past fiscal year revealed a clear trend: demand and supply in the used-vehicle market are becoming more and more international. MAN Nutzfahrzeuge generates most of its new business in non-European markets. In fact, a key component of its international growth strategy is accessing Asian and East European markets, including the CIS countries. The past fiscal year was thus marked by a large amount of activity at an international level.

MAN Nutzfahrzeuge signed a joint-venture agreement at the end of April with Force Motors Ltd. in India. The joint enterprise, called MAN FORCE TRUCKS Private Limited, plans to manufacture up to 24,000 trucks in the 16-ton-plus category annually in Pithampur, India. Force is to sell half the trucks in India, while the other half is slated for other parts of Asia and for Africa. The product portfolio of the new MAN Cargo Line (CLA) includes long-haul trucks, tractor-trailer rigs, dump trucks, as well as special-purpose vehicles featuring various axle-combinations.

In addition to this cooperation in the truck business, the two partners have a joint agenda in the bus sector. As part of this, both companies have agreed to enter into an additional joint venture to build chassis as well as entire buses. Both the chassis and the buses are destined primarily for the Indian and Asian markets. MAN Nutzfahrzeuge also opened its first Trucknology Center for MAN trucks and buses in Beijing, China, in October 2006. The center is to employ about 40 staff and will serve as the head office for the sales and service branches in China, while also assisting the office that is currently being set up in Shanghai.

15.9%

was the market share in terms of European sales for MAN Nutzfahrzeuge in 2006 for trucks over six tons (2005: 15.6%).

MAN Nutzfahrzeuge is also increasing its activities in the Central and South American markets. In early June, a new production facility was opened in Querétaro, Mexico. The plant will assemble bus chassis as well as complete buses, such as the MAN Lion's Coach L. Vehicle-related sales and service will be handled by MAN Ferrostaal, which has been running on-site operations there for MAN Nutzfahrzeuge since 2004.

Market Leader in Poland
Other growth regions include Eastern Europe, Russia, South Africa and the Middle East. In order to better serve these markets, MAN is building a new assembly facility outside of Kraków, Poland. Groundwork was laid there in June 2006; heavy-duty models such as the MAN TGA World-Wide and the MAN TGA are scheduled to roll off the assembly line starting in mid-2007. Over the medium term, MAN Nutzfahrzeuge intends to produce 15,000 vehicles annually with its 650 employees working there. Demand is high in the region, with two large orders already taken in the fall for a total of 710 heavy trucks. The Polish subsidiary of RICÖ (an international transportation service provider) ordered another 285 vehicles, and Equus placed an order for 425 TGA tractor-trailer rigs. MAN Nutzfahrzeuge recorded sales of €305 million in Poland for 2006, an increase of 35.5% compared with

the same period last year. New orders went up by 51.2%, a trend reflected in the fact that every fourth truck operating on Polish roads is made by MAN. Looking at the entire eastern sales region, MAN Nutzfahrzeuge has established itself as the leader in the over-six-ton truck category, with a market share of 18%.

Focusing on Regional Requirements
In CIS countries, the demand for MAN commercial vehicles is booming. In 2006, sales rose to €178 million, representing a year-on-year increase of 149%. MAN is responding to sales growth in the region by opening an MAN Financial Services office in Moscow. In addition, MAN Nutzfahrzeuge is expanding its network of service partners and dealers to a total of 18 in the region. Whether operating in Asia, Eastern Europe or South America, all activities abroad have one objective: to better satisfy regional requirements. Accordingly, vehicles are tailored to the respective needs of a region and, as premium products, they stand for MAN's reputation for consistent high quality in the respective markets.

Besides the greater focus on new opportunities, MAN Nutzfahrzeuge also took large order volumes in its home market in Europe—for

High performance combined with low fuel consumption: the new D26 Common Rail made by MAN Nutzfahrzeuge.

instance, in the United Kingdom. At the end of June, 2006, the British defense ministry awarded the company a follow-up order to deliver 2,051 SX-type and HX-type vehicles developed specifically for off-road driving. The United Kingdom thus increased its main order from March 2005 by €300 million to €1.6 billion. The vehicles were specifically developed for off-road use and have continually been proving their toughness and absolute reliability.

Tremendous Innovative Energy
In order to expand its technological leadership, MAN Nutzfahrzeuge steadily invests in research and development. The company received several awards in 2006, thus confirming that its customers benefit directly from these innovations, especially in the area of environmental protection. One of MAN's liquid gas engines conforms to emission limits significantly lower than those currently imposed on Environmentally Enhanced Vehicles (EEV). In recognition of this accomplishment, the City of Vienna has awarded MAN Nutzfahrzeuge its 2006 Environmental Prize. The Federation of German Industries (BDI) honored MAN three months later with the BDI Environmental Prize for the MAN PM-KAT® for the 2005/2006 period.

With its common rail injection, exhaust gas recirculation (EGR), and PM-KAT® systems, MAN offers a technologically and economically convincing concept for compliance with the Euro 4 emission standard. Unlike conventional diesel filters, the MAN PM-KAT® cannot plug up, requires no additives such as AdBlue®, and is completely free of maintenance. In parallel with this, MAN also offers Euro 5–compliant engines based on MAN's AdBlue® SCR technology. These could be of particular interest to customers whose vehicles do a lot of driving on toll roads. This means that MAN Nutzfahrzeuge is now in a position to provide the right exhaust technology to customers in any region of the world, operating any type of vehicle.

MAN was also presented with an award that honored the MAN Hydro-Drive® system. This has hydrostatically driven wheel hub motors supplying additional traction to the front axle of MAN TGA trucks in cases where this is needed. At the 2006 Intermat trade show held in Paris, this internationally unique technology received the "Innovation Silver Award" in the "Equipment and Components" category.

MAN Nutzfahrzeuge Group

€ million	2006	2005
Order intake	10,103	9,434
Sales	8,685	7,377
Operating profit[1)]	698	497
Headcount (as of Dec. 31; excluding temporary employees)	34,040	33,368
Return on sales (ROS)[1)] (in %)	8.0	6.7
Return on capital employed (ROCE) (in %)	26.8	17.9

[1)] including profits from financings

The big draw at the IAA show: MAN trucks are in higher demand worldwide than ever before.

The new TGM 4x4 with all-wheel drive: It goes anywhere, especially where maximum traction is required.

Ergonomic and multifunctional: Truckers swear by the comfort and technology of trucks made by MAN Nutzfahrzeuge.

Mexican mariachis pay a musical tribute to the opening of the production facility at Querétaro, Mexico.

Truck manufacturing plant in Pithampur, India: This joint venture is to produce 24,000 16-ton-plus vehicles annually.

The NEOPLAN Cityliner coach was first introduced to the world at the leading trade fair.

Focusing on international markets

Sales of buses (+22%) and trucks (+17%) were up sharply worldwide in fiscal 2006.

Truck sales in units (2006)	
Germany (domestic)	26,116
Rest of world (abroad)	53,706
TOTAL truck sales	79,822

Bus sales in units (2006)	
Germany (domestic)	1,476
Rest of world (abroad)	5,862
TOTAL bus sales	7,338

Excellent Showing at IAA

The International Motor Show (IAA) for commercial vehicles, held in Hanover, Germany, was a great success. Under the motto of "Transport worldwide. Powered by MAN." visitors to the world's biggest commercial vehicles trade show got to see the world premiere of the NEOPLAN Cityliner travel coach, the MAN TGM 4x4 and the D26 common rail engine. New safety and comfort features as well as service packages rounded off the broad spectrum of products exhibited. Over the show's eight-day run, the company received 1,700 orders for MAN trucks for the German market alone.

Also drawing a lot of attention, especially for potential customers from Asia and Africa, was the CLA series manufactured in India. A well-known customer from the construction industry signed a letter of intent for the delivery of 500 MAN CLAs per year going to CIS markets. MAN's competence in engine-building was also confirmed in the industrial sector with the engine unit receiving an order for more than sixty 800-hp train engines.

The NEOMAN Bus Group, which includes the MAN and NEOPLAN brands, also experienced a great deal of success at the trade show. Customers were thoroughly impressed with the NEOPLAN Cityliner, with 50 orders being placed for these coaches. The MAN Lion's City coach was also well received, and on this occasion it was equipped with an MAN D08 common rail EEV diesel engine. This engine is designed to comply with this classification's strict emission standards without requiring additional fuel additives. Another popular item was the Lion's City coach, which featured a hydrogen combustion engine.

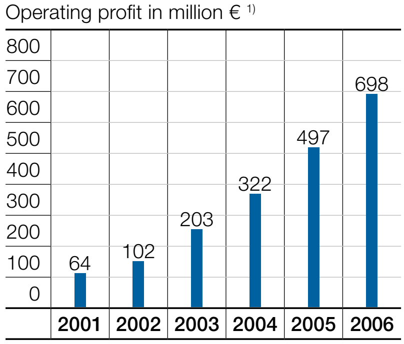
Investment Package Finalized

Over the next few years, a further increase in productivity is planned. To this end, the executive board and the works council have agreed on new work time regulations for the Munich facility, which went into effect in October 2006. Productivity-enhancing investments amounting to €190 million were also agreed upon and will be implemented by 2012. With these measures, MAN Nutzfahrzeuge expects to save €50 million annually. In this context, efficient logistics processes, remodeling, new building construction and new machines are projected to increase productivity by €26 million per year. The package also stipulates additional working hours for employees. This provision will generate cost savings of €24 million per year. At the same time, the agreement promised that there will be no business-related layoffs. Currently, the Munich facility employs a total of 6,728 people in headquarters and production units.

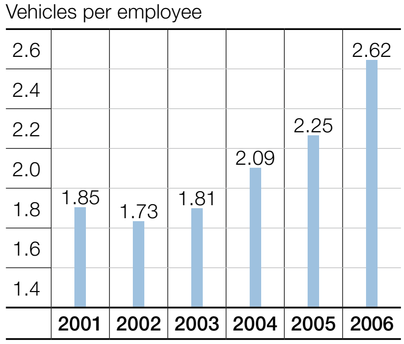
Excellence in productivity

Over the past five years, MAN Nutzfahrzeuge not only posted a sharp increase in profits, it also raised total unit productivity to 2.6 vehicles per employee.

Operating profit in million € [1]



Vehicles per employee



[1] from 2005, including earnings from financial services

A TECHNOLOGY LEADER'S STRATEGIES

Premium service, redefined, is Anton Weinmann's vision. The CEO of MAN Nutzfahrzeuge shares his insights in an interview about new markets in the Far East, regionally adapted vehicles, and road trains in Germany.

Mr. Weinmann, experts claim that the boom in the commercial vehicles industry has passed its zenith. Are you expecting more difficult times on the road ahead?

I believe our business prospects are absolutely positive. Our company, just like the commercial vehicle industry in general, will continue to experience stronger growth than the world economy. The international trade of goods is increasing thanks to globalization. This will continue to increase the demand for transportation services. Accordingly, I'm standing by our objective that by 2010 we will be selling at least 100,000 trucks and 10,000 buses annually.

You're planning on growing faster than the world economy?

That's what we're expecting, yes.

What role does service play in this sector?

It certainly makes a significant contribution. For 2007, I'm expecting at least 5% growth in this area.

It would appear that service's percentage of total sales is not growing.

The quality of our products continues to go up. That is why repair and maintenance costs per vehicle are going down. We can only grow via a greater vehicle volume, more service quality and a better service network. We're well on our way to making this happen.

Two years ago, you implemented a program that was intended to realize savings of €150 million per year for the company. What are the total savings to date?

We have largely achieved our objectives or initiated corresponding measures. For example, we concluded a labor-management agreement in Munich that will reduce our costs by €50 million annually. And we want to see other such agreements at other production locations. Right now, we're in negotiations with Nuremberg.

When do you expect a deal?

We are aiming to finalize negotiations by the first quarter of 2007.

Cost-saving measures also represent a basis for continued growth. What markets are you counting on primarily?

The market volume in Asia and the Middle East is between 800,000 vehicles and 900,000 vehicles annually. That is why this region is one of our target territories. We're also focusing on Eastern Europe, which is a market that is experiencing extremely rapid growth.

In Western Europe, we're primarily concerned with the high-volume countries. Besides Germany, these include Italy, France and the UK. Our objective is clear: By 2010, we want to increase our market share throughout Europe to 18%.

Currently, the company holds a 16% market share. Where will that growth come from?

It will come primarily from a service network that we plan to expand and finalize. We've had to expand significantly in France and Italy. In the UK, we've pretty much set things in place.

Why do you think that you will be able to penetrate less developed markets such as Eastern Europe despite your fairly high prices?

That region also has a high demand for premium products. However, in Eastern Europe "premium" has a different meaning from that in Western Europe. This is because market demands and the infrastructure situation are different.

Is there a risk that you might dilute the brand?

Not as long as we remain the premium product and service providers in every market.

Is it conceivable that you will be offering a complete line of regionalized products?

No, we are sticking with our module strategy in which certain standard elements are tailored to regional requirements. For instance, our CLA line being built in India will clearly remain an MAN product, but one that is adapted to the requirements of local customers

Anton Weinmann has been CEO of MAN Nutzfahrzeuge AG since 2005. He has been a member of the executive board since 2001. Previously, he was a member of the executive board at MAN Roland Druckmaschinen AG (which specializes in printing machines).

Your "Trucknology" product line is now complete. What's in store for next year?

We probably have the most complete product program of any manufacturer. However, there will be new products coming out this year.

Such as?

You'll have to wait and see!

Let's talk about the bus market. How do you plan on taking on competitors who have higher sales?

In the former CIS countries and South America, we are emphasizing expansion. Starting in 2008, we and our partner Force Motors Limited will be building chassis in India.

Collaboration is already starting in the development stage?

Development cycles keep getting shorter. This requires an enormous amount of money and a lot of expertise. For that reason, we are working closely with strong technology-oriented partners, like Navistar from the US, and Liebherr.

How do functional and dysfunctional collaborations differ?

First of all, the partners really need to complement each other. Each one must have technological leadership in a core area and bring this expertise to the partnership. Collaborations can't function if intercultural expertise is missing. Each partner must fully understand the cultures of the other parties involved.

Your policies are characterized by confidence in Germany as a production location, yet that view is often criticized.

We have carried out considerable productivity-related improvements in Germany. German workers are also remarkably well qualified. Accordingly, we want our head plant in Munich to set a standard worldwide.

Many companies complain about there being a shortage of skilled workers in Germany.

We are not noticing anything like that. Also, we have no trouble finding enough excellent engineers. That may have something to do with the fact that as an employer, we have become more attractive. Graduates see us as a technology leader.

With regard to technology, what will the challenges be over the next few years?

The key issue is improving fuel performance. We are always working on improving it.

Are you also planning on rolling out a 60-ton truck, the kind seen in other countries but not in Germany?

We don't have to start from scratch on that one; our tractor rigs can pull a 60-ton load without any problems. I'm calling upon German politicians to create the basic conditions for environment-friendly and efficient solutions to meet growing transportation requirements as quickly as possible.

“MAN Diesel benefits from globalization in two ways: Goods need to be transported and there is a growing demand for energy worldwide.”

Dr. Georg Pachta-Reyhofen, CEO MAN Diesel SE (see interview on pg. 78).

Photo: Eberhard Petzold

MAN DIESEL: POWERING THE WORLD

A high demand for diesel engines for ships and power plants helped MAN Diesel SE achieve record sales in 2006. At €229 million, the operating profit is almost double that of last year.

For MAN Diesel SE, 2006 was an eventful year. The engine specialist was the first MAN business area to become a legally designated European Company (SE, for Societas Europaea). This international legal redesignation is fitting for a company that has production facilities in several European countries, and whose customers are based all over the world. Thanks to this change in corporate legal status, we now present a more unified organization when dealing with shipping companies, dockyards, and power plant operators which will improve our competitiveness. In addition, the change in legal status will be accompanied by a product- and function-oriented organizational structure that extends in a uniform manner to all our facilities around the globe. At the same time, the production network for four-stroke medium-speed engines will also be optimized.

Fit for the Future

The measures initiated in conjunction with this change in legal status are intended to give the MAN Diesel Group "all-weather" capability, should we encounter unfavorable market conditions. The change at the helm gave internal changes additional momentum: Dr. Georg Pachta-Reyhofen, who previously served as member of the executive board for MAN Nutzfahrzeuge and was head of research, development and purchasing, took over the CEO position at MAN Diesel on July 1, 2006.

One of 2006's key events was the Shipbuilding, Machinery & Marine Technology (SMM) trade fair in Hamburg, the world's most important maritime industry trade show. Unveiled for the first time to the general public, MAN Diesel's 32/44CR common-rail engine was one of the main draws at the event.

Crown Prince Opens "Diesel House"

As early as May 2006, 200 representatives from our international licensees got to take a look at this new four-stroke medium-speed engine at a conference hosted by MAN Diesel. One of the event's highlights was when Denmark's Crown Prince Frederik "cut the ribbon" to formally open "Diesel House" in Copenhagen. The building is a hands-on museum built around a massive stationary two-stroke motor from 1932.

Future-oriented: Thanks to its common rail technology, the 32/44CR has impressively high performance and low emissions.

Premium Service for Engines

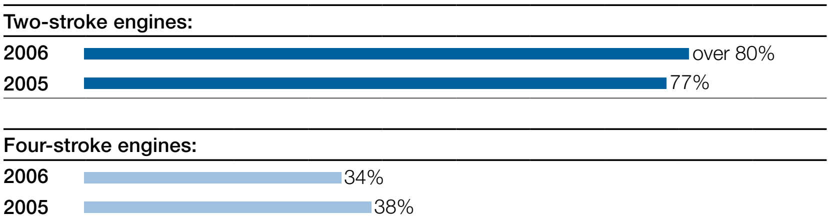
At a strategic level, two items are on the agenda: expanding the power plant business together with partners, including MAN Ferrostaal, in the area of turnkey facilities, and reinforcing after-sales activities under the brand name MAN Diesel PrimeServ. The new brand represents our commitment to high-quality diesel engine service and the ability to supply customers with original replacement parts within 24 hours. Although MAN Diesel already has over 40 service centers spread out among the world's major port cities, the PrimeServ network will be further expanded. For example, the company set up eight new support facilities around the globe in 2006.

Knowledge as a Competitive Edge

Training represents another critical area upon which MAN Diesel PrimeServ's strategy is based. What we are after is even better training for our own service engineers as well as those of our customers. To do so, we have created our own "international service engineer" training program and are currently setting up MAN Diesel Group's biggest PrimeServ Academy, in Augsburg. As an integral component of MAN Diesel PrimeServ's international training network, it will set the

MAN Diesel's market share (maritime business)

We were able to expand our lead in two-stroke engines. In four-strokes, share increases in propulsion engines were partially offset by losses in auxiliary engines.



standard for future investments in its academy-related programs.

With regard to ship propulsion systems, we have further established our position as a leading supplier in the area of low-speed marine engines; in fact, our market share is over 80 percent. There is a strong demand for electronically controlled ME engines, of which we have already sold 250 units. Ongoing improvements to our large two-stroke engines and smaller-bore, low-speed engines have focused on electronic controls and better performance with the result that they have lower emissions and better fuel efficiency.

Performance and Economy

For MAN Diesel's medium-speed four-stroke engines, 2006 was a year marked by product innovation. We rolled out three new engines. The previously mentioned 32/44CR generates 560 kW per cylinder, putting it at the top of its class. It is the first volume-production, heavy-fuel engine from MAN Diesel that is exclusively available with common rail fuel injection technology. This system gives our customers an attractive combination of high specific performance, low fuel consumption and extraordinarily low exhaust emissions. The dual-fuel 51/60DF is a new four-stroke medium-speed engine we have added to our product line. It can run both on gas and marine diesel oil (MDO), and can also be operated solely on heavy fuel oil (HFO). The environment-friendly 51/60DF is the biggest four-stroke gasoline engine on the market. It is targeted specifically to the growing LNG (liquefied natural gas) tanker segment. A customer event gave executives from the shipbuilding and power plant industries a chance to judge its advantages when it was put on the test bench at our Augsburg facility. A trendsetting innovation is the 32/40PGI gas engine. PGI stands for "performance gas injection" and describes the new start-up and ignition system for this engine, which requires no spark plugs. The 32/40PGI is the first engine to combine the advantages of a diesel engine, such as a high power spectrum and high efficiency, with the benefits of a low-emission, combustion ignition gas engine. Its power output is about five to eight MW and is specifically designed for use in electricity-generating stations. The first 32/40PGI has been in operation since 2005 in the co-generation unit at our Augsburg main plant, where it supplies electricity for the forge's smelting furnaces and thermal energy for building heat and work processes.

23,290

megawatts (MW) was the total engine output of all orders placed in FY 2006.

Two Gas Engines for Moscow

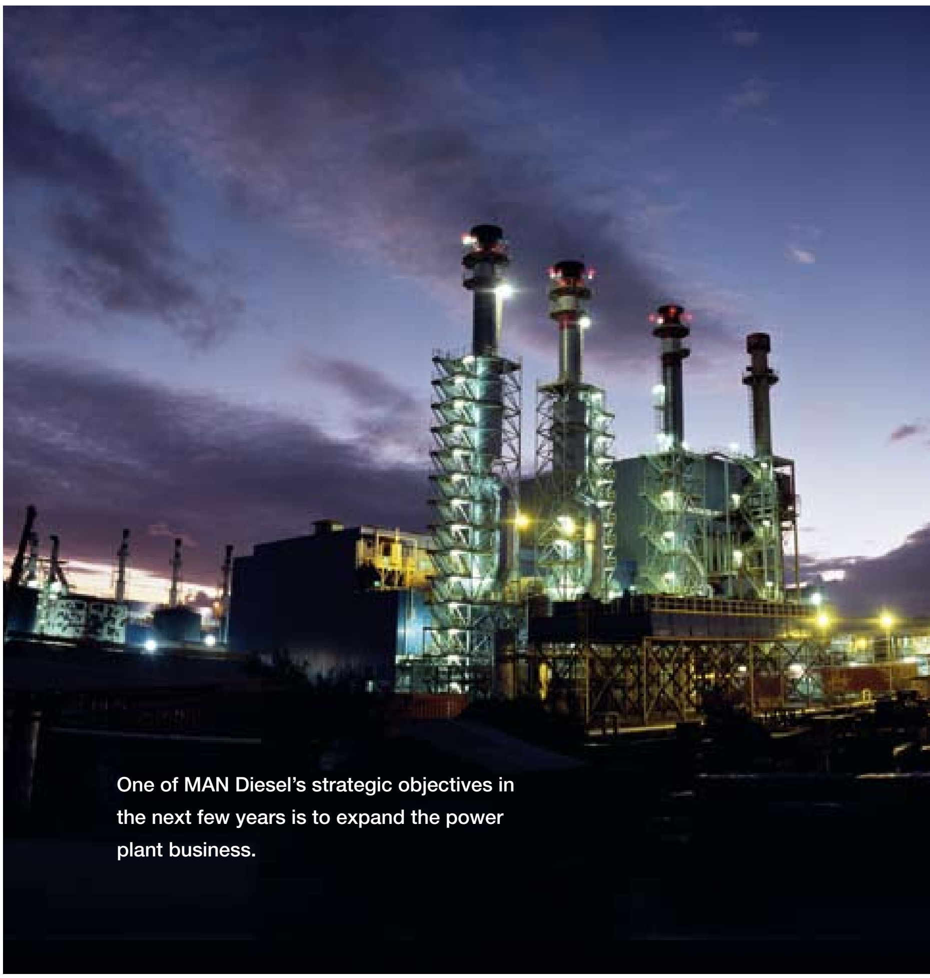
The 32/40PGI was first presented at a press briefing at the PowerGen Europe trade show held in May 2006. Later in June and upon MAN Diesel's invitation, customers had a chance to see it for themselves in June. International power plant executives came to Augsburg to attend the event run under the motto of "Diesel meets Otto". The first buyer was a subsidiary of Russia's Gazprom Group, which purchased two PGI engines in December 2006. Scheduled for delivery at the end of 2007, the engines will be generating energy at a power plant in Moscow.

MAN Diesel Group

€ million	2006	2005
Order intake	2,619	2,203
Sales	1,802	1,666
Operating profit	229	117
Headcount (at Dec. 31)	6,408	6,423
Return on sales (ROS) (%)	12.7	7.1
Return on capital employed (ROCE) (%)	46.6	22.8

End-to-end expertise: Upon request, MAN Diesel can deliver a ship's complete power train, including propeller.

MAN Diesel PrimeServ stands for perfect service and the ability to deliver original replacement parts within 24 hours.



One of MAN Diesel's strategic objectives in the next few years is to expand the power plant business.

The first 32/40PGI gas engine generates electricity and heat at MAN Diesel's main plant in Augsburg.

"OUR ORDER BOOKS ARE COMPLETELY FILLED UP UNTIL 2009."

MAN Diesel ended the fiscal year with record-breaking profits. But instead of putting his feet up, CEO Georg Pachta-Reyhofen is laying a foundation to position the engine specialist at the front of the pack for the long term.

Dr. Pachta-Reyhofen, on July 1, 2006, you took over the CEO position at MAN Diesel. What were your first impressions?

Obviously, many of my expectations were confirmed, although some things did surprise me. It is quite clear that MAN Diesel has a very long tradition in engine development and production. It has an incredibly high level of technical expertise. It has a very good understanding of its customers and the market. I was also impressed with the high level of customer loyalty and customer support, especially among our international licensees.

What is MAN Diesel's current economic situation?

Up to and including 2009, our order books are completely filled up. With the market in our favor, we have an opportunity to optimize our processes. MAN Diesel benefits from a globalized economy in two ways. On the one hand, goods need to be transported from their countries of origin, especially from Asia, to consumers. On the other, there is an increasing demand worldwide for energy, and we are the ones that supply the engines, both for ships and power generation plants.

How long do you think this positive trend will last?

Since globalization is irreversible, I think there is a good prospect that our sales will remain high. Also, remember that many developing countries in Asia have substantial government-funded support programs geared toward shipbuilding. These economies are currently making additional investments in port facilities and shipyards. That will certainly continue for the next 10 years.

As good as the prospects seem, they also mean lengthy delivery periods. How can production capacity be better utilized?

First, by concentrating on our core components. This is where we need to make investments and optimize processes. Secondly, we need to streamline our product portfolio. Our four-stroke engines have too many older-type models in the program. We need to keep the overlap between old- and new-type engines as small as possible. That will make things much easier for us.

Will that be enough?

No. Besides those things, we are presently creating new resources for our four-stroke business. This stems from our decision to stop producing two-stroke engines in-house by 2009 and have them built exclusively by our licensees in the future. We will also need a higher degree of standardization, especially in the power plant sector, where we want to see substantial growth. We also have to improve order processing. It's hard work, but on the other hand it offers tremendous potential in terms of increased productivity.

What are the advantages of the MAN Diesel AG's change in legal status, to MAN Diesel SE, thereby making it a European Company?

For one thing, the new status gives us a more uniform market presence. For another, the legal structure of the Societas Europaea makes it easier for us to re-assign activities groupwide. In other words, we aim to move away from a structure that is based on individual countries and more toward business units oriented along market segments. Every business area worldwide would then report to only one managing director. These would be supported by head-office functions authorized to define group-wide policies.

How will MAN Diesel benefit from belonging to the MAN Group in the future?

The benefit will be our ability to work even more closely with the other companies. Possible examples include collaborative ventures with MAN Nutzfahrzeuge regarding high-speed engines or with MAN Ferrostaal in the power plant business. I'm also in favor of using the Group's Shared Services to a greater extent, such as in information technology or in human resource management. Furthermore, we should also serious-

After holding several positions within the MAN Group in Germany and abroad, Dr. Georg Pachta-Reyhofen was appointed as member of the executive board at MAN Nutzfahrzeuge in 2001. He has been the CEO of MAN Diesel SE since July 2006.

ly consider increasing our consolidated Group purchasing activities.

Reorganization is also supposed to increase efficiency. What exactly will change?

Underlying the new production network is the coherent assignment of engine types to our production facilities, including clearly allocated roles. The production of four-stroke engines is currently divided among Augsburg, France and Denmark. In the future, the production of all four-stroke core components will take place in Augsburg, as will the assembly of the lightweight large-scale engines. Small-volume engines up to a 27-cm bore diameter as well as complete propulsion systems for ships will be supplied out of Frederikshavn. The assembly and testing of the biggest engines, weighing over 200 metric tons, will be performed in Saint-Nazaire and also, from 2009, in Frederikshavn.

Is this because both production sites are located at ports, something that makes them convenient in terms of transportation?

Right. Also, Saint-Nazaire and Frederikshavn obviously have the required engine-testing equipment. This re-allocation process will allow us to produce a significantly greater volume without needing to make considerable investments. This measure, as well as adjustments to our four-stroke product portfolio, will create additional capacity.

> "Since globalization is irreversible, I think there is a good prospect that our sales will remain high."

Speaking of challenges: While MAN Diesel has a substantial lead in the market for two-stroke engines, its stationary engines have some catching up to do. How do you propose to energize this sector?

Right now, MAN Diesel has a market share in the world power-plant sector of about 19%. Especially in the power plant sector, we now have a unique opportunity along with MAN Ferrostaal to develop more projects and to offer turnkey power plant operations. It's a great opportunity for us because there is hardly any competition in this growing market segment.

What specific, tangible goals have you set for yourself in the power plant business?

We are currently delivering 600 MW per year, and by 2010, we plan on increasing that figure to about 1,300 MW. That would give us a world market share of more than 30%. Thanks to our collaboration with MAN Ferrostaal, we believe the odds are good that we will actually achieve this objective.

“Our broad product line-up means we have a product to fit any application. This has helped us ride out swings in the market and will continue to do so.”

Jürgen Maus, CEO MAN TURBO (see interview on pg. 84).

MAN TURBO: IN SUPERCHARGED MODE

The demand for energy and high oil prices helped MAN TURBO achieve another record year. Factors that contributed to its success include a broad application spectrum, an enhanced product line, worldwide networks, and a strategic growth concept.

Order volume, which was already high during the previous year, went up by another 50%, to €1.5 billion. MAN TURBO's comprehensive product line means the company is well positioned in a strong market. It has been seeing above-average growth especially in the oil and gas sectors as well as in industrial gas applications.

China, India and the Middle East were the primary growth drivers in FY 2006. In these regions, the company benefited considerably from an unrelenting demand for oil and gas as well as from the raw materials sector. China in particular increased the already substantial order volume it placed last year by another 33%.

Europe's Growing Importance
The old continent is engaging in growing activity in gas transportation, gas storage and energy generation, meaning Europe is playing a steadily more significant role for MAN TURBO. At a global level, investment activity in the refinery sector, which had been held back for years, is now being revived, resulting in order volume going up considerably. One example is India, where MAN TURBO's traditionally good position was reinforced by extensive orders placed by the subcontinent's refineries. The refinery competence center in Berlin especially benefited from this new business.

World Leader in GTL Facilities
Following a somewhat slow start in the late 1990s, demand for air separation systems to be used in GTL (gas-to-liquids) facilities, has evolved into a genuine boom. As the international market leader, we provide most of the key technologies. The most recent and biggest order in the company's history consisted of deliveries for the construction of a new GTL plant in Qatar. With a daily output of 140,000 barrels, it will be the world's biggest such facility. Here, natural gas is liquefied using oxygen to produce mainly high-grade synthetic, sulfur-free fuel. The process employs eight turbo-machine drives for air-separation purposes as well as 12 reactors made by MAN DWE in Deggendorf, a subsidiary of MAN TURBO Group. Having successfully delivered key components for the first two commercial GTL facilities, the Qatar order now assures MAN TURBO a steadfast foothold in this promising market segment
.

140,000

barrels of synthetic fuel are produced by the new GTL facility in Qatar, for which MAN TURBO delivered key components.

Our special compressors for use in gas storage have moved us into the number one position in this segment as well. These machines have come to help fill almost all of the UK's demand for gas storage, and more orders may come in, since the UK is currently expanding its reserve capacities. Customers in the Netherlands, Belgium and northern Germany also have come to rely on MAN TURBO's gas storage expertise.

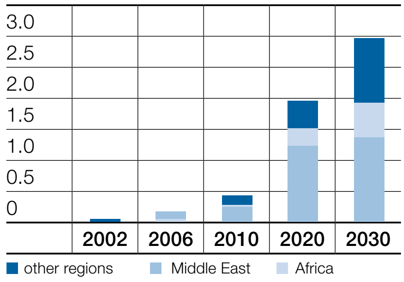
Expanding the Service Networks
Currently, MAN TURBO is expanding local activities and making basic investments in production and servicing centers with a view to expanding its worldwide service network in regions that are strategically important. For example, the new servicing facility in Ras Lafan Industrial City in Qatar not only supports current activities at the GTL facilities there, but in addition can provide maintenance capability for the other MAN TURBO machines that are operating in the region. In the case of our service shop in Iran, one of its purposes is to provide a way to support Iranian customers with service specifically tailored to their needs. In China, final preparations are under way for the construction of a new production and service center.

Booming Steam Turbines
Order volume for steam turbines saw a year-on-year doubling, reaching a historic high. This impressively underscores the fact that taking over the steam turbine operations of

Hamburg-based B+V Industrietechnik (formerly Blohm & Voss) has filled a strategic gap, favorably rounding off our product portfolio. The low-output, 1.5- to 20-MW steam turbines built at the Hamburg plant are an ideal complement, one that enables us to cover the entire range up to 120 MW. The standardized steam turbines made in Hamburg are being used in central and northern Europe particularly as generator drives for biomass, waste incineration and co-generation facilities.

A promising global market

Predicted GTL production by regions (in millions of barrel per day)



Sources: OECD/IEA

Integration of MAN DWE

In the fiscal year now ended, MAN DWE (Deggendorf, Germany) was merged into MAN TURBO. The rationale behind this decision lay in the considerable growth prospects that a combination of the two companies would enjoy, namely in the field of production technology for synthetic and highly refined fuels from natural gas or biomass as well as from GTL or BTL processes. Both companies can point to expertise in key components of this technology, with MAN TURBO mainly active in air separation, while DWE is at home in synthetic gas reactors. The new line-up had an opportunity to prove its competence as it delivered key components to the GTL plant in Qatar. Additional synergies are being achieved in the area of sales.

A Focus on Increased Productivity

As revenues grew very favorably, MAN TURBO Group also improved its cost base. Agreements negotiated with the works councils at the Oberhausen and Berlin facilities will provide improved competitiveness and additional growth, thus creating the prerequisites for solid and sustained positive development. The agreements stipulate more-flexible work hours for employees. Also, they provide for a reduction in bonuses beyond the regular pay scale, which had been the norm when hiring new production workers.

At the same time, we are striving to significantly increase productivity over the next few years. To do so, the company has embarked on an ambitious investment program. Also, it has increased the workforce at various plants, adding a total of about 580 employees. The combined measures will serve to strengthen and safeguard our European technology centers as well as reinforce our presence in China.

MAN TURBO Group

€ million	2006	2005
Order intake	1,498	850
Sales	908	694
Operating profit	71	43
Headcount (at Dec. 31)	3,257	2,476
Return on sales (ROS) (%)	7.8	6.2
Return on capital employed (ROCE) (%)	30.5	18.5

Increased Activity in China

In response to the unbridled dynamic of Chinese markets, MAN TURBO is building a production and servicing center near Shanghai. The production facility, to be manned by some 200 employees, will form a foundation for continuous sustained growth in what is currently MAN TURBO's most significant single market. Setting up this center will permit a necessary expansion of capacities within the MAN TURBO Group and will also meet China's request to have a greater local share of production. Increasing activity in China will also enable us to maintain closer ties to our customers, something that will be of considerable benefit for our after-sales business.

Good Prospects for 2007

Judging by present form, the next few years are promising continued, albeit more moderate, growth. Factors that we believe will contribute to our success include our broad spectrum of application, our ability to supply complete drivetrains, our permanent commitment to improving our existing product lines, our worldwide network, and our careful choice and diligent integration of corporate acquisitions. In view of all this, MAN TURBO believes it has positioned itself well to face up to any future challenges and will continue to benefit from our customers' increasing demand for our high-quality products and services.


Standardized low-output steam turbines manufactured at the Hamburg-based production plant have expanded the product portfolio.


It's a bona fide boom: Isotherm turbo-compressors for air separation are manufactured at the Zurich plant.


MAN TURBO's factors for success: a broad application spectrum and complete drivetrain competency.

"INVESTMENTS FOCUSED ON EUROPE"

The worldwide demand for energy is filling MAN TURBO's order books. Jürgen Maus, CEO of the Oberhausen-based turbo machinery manufacturer, talks about his sales objectives and the significance of European production centers.

Mr. Maus, MAN TURBO has seen a lot of expansion recently. What will the next few years look like?

Our vision is to achieve a sales volume of €1.5 billion as soon as possible. New orders have already hit that target figure in 2006. We also want to increase net earnings through profitable growth on the new development side and expansion on the service side—and we want to achieve a double-digit EBIT margin as soon as possible.

Where is that growth going to come from?

The strong demand for energy, especially from the oil and gas sector, has been the biggest driving force behind our growth to date. We have succeeded in expanding our service spectrum in all areas over the years. We have done so by means of organic growth and well-positioned acquisitions, such as the recent takeover of Blohm & Voss's steam turbine division. This has made us one of the top three providers of turbo machinery in the world.

Your order books are full. Are you running into any capacity-related bottlenecks?

We have indeed achieved a very high order volume, and we now need to deal with it appropriately. This means that we will need to boost our capacities and further optimize our processes. As part of this, we sat down with our works council and concluded an agreement to secure further growth and improved competitiveness. At the core of this agreement is an increase in our manufacturing productivity by 10% over the next two years. Measures of this sort will not only improve our bottom line, but will also serve to expand our capacity.

How much is this costing you?

We're going to invest about another €60 million. Of that, €15 million will go toward setting up a production and servicing center in China to serve local markets there. We are also going to use the investments and increased manpower to strengthen our European technology centers, thus protecting our expertise.

One of the core objectives is the standardization of your portfolio. Yet you also claim that you can offer customized solutions.

Our broad product line-up means we have a product to fit any application. This has helped us ride out swings in the market and will continue to do so. Wherever that was possible, we have sought to modularize and standardize our products so that we can process larger volumes. On the other hand, MAN TURBO has maintained the capability to address customer requests with tailor-made solutions.

An export rate of 85% means MAN TURBO is active all over the world. What are regions are you specifically focusing on?

> "We seek to penetrate high-volume markets by coming up with the right products at the right time."

Are your suppliers able to keep up with you at all?

On-time delivery of semi-finished products is in fact our Achilles' heel. There are major bottlenecks in our supply with cast and forged parts. This is another reason for us to revamp the entire supply chain. We will also be implementing rolling forecasts and paying more attention to the strategic element in our purchasing decisions.

We seek to penetrate high-volume markets by coming up with the right products at the right time. So far, we have been very successful in this, especially in China. This market has been providing us with about 20 percent of our orders and is set to continue to do so. We're also working on a strategy for Russia. There, our aim is to satisfy demands for local content and to expand our service business. Other interesting markets besides the ones I

Jürgen Maus has been the CEO of MAN TURBO AG since 2002. With a graduate degree in industrial management, he has been with the company since 1966 and has had a major influence on the company's positive growth to date.

have just mentioned include India, the Middle East and South America.

What do you plan to do if and when demand in China finally starts dropping off?

Looking ahead from today, we foresee that our business in China will shift from the primary products sector to other applications. But that is something which we do not see as a disadvantage. Worldwide, we can expect gas transport and gas storage to gain in significance as will new applications, such as sub-sea programs or carbon dioxide separation and storage. In the gas-to-liquid segment, we're very well positioned right now, but we are nevertheless continuing to improve our products in preparation for the fact that this market will continue to grow.

You are also hoping to expand the after-sales business.

Yes, we want to out-perform our competitors in this segment and to achieve an annual growth of 15%. Until now, almost all this segment has been doing has been the sale of replacement parts. This is changing: The availability of round-the-clock comprehensive services is steadily gaining in relevance, and not just for our customers, but for our earnings, too. In our view, there is also considerable potential when it comes to systematically optimizing the performance optimization of existing plants and machinery.

Do have any plans in the works for new acquisitions?

Additional acquisitions make sense, especially ones with which we can strengthen existing service-related technologies.

Last year, a decision was made to place MAN DWE under MAN TURBO. What is your expectation in regard to this move?

MAN DWE is the market leader for certain applications. Close collaboration with MAN TURBO will result in many synergies, especially in sales. Think about it: 80% of DWE's clients are also our customers. The important thing will be for our customers to integrate DWE early on into the process, as in the development of reactors, such as the ones that power GTL facilities, for example.

What additional synergies exist for MAN TURBO within the MAN Group?

What we certainly need is the exchange of technological expertise, such as in the areas of materials or logistics. Another field that I am sure can be expanded further is the transfer of knowledge between business areas. However, there are other synergies which we should tap. For instance, we are going to try to utilize MAN Ferrostaal's sales platform. After all, our colleagues in Essen are excellent partners when it comes to performing project development and setting up the necessary financing arrangements.

"Regarding construction of industrial plants, we are concentrating on the energy and fuel sectors, which is where we are expecting high growth rates."

Matthias Mitscherlich, CEO MAN Ferrostaal (see interview on pg. 90).

MAN FERROSTAAL: A STRATEGIC REALIGNMENT

The new structure of the industrial services area is bearing fruit. The plant construction unit is booming, but so is the services unit. MAN Ferrostaal is fast becoming the service and sales platform for the MAN sister companies.

The industrial services area achieved a key intermediate objective in FY 2006 as part of its strategic reorganization. In order to focus on the core business, we concluded deals to sell off peripheral activities and we have started to open up potentially lucrative business areas through acquisitions. In 2006, MAN Ferrostaal sold off MAN TAKRAF, the nuclear technology unit, and the steel manufacturing activities in Delitzsch and in Gommern. Since the start of these restructuring measures in 2004, the combined total of activities sold off is €400 million and has involved 2,200 employees.

Acquisitions in Plant Engineering
By contrast, we have boosted our competence in the construction of petrochemical plants. MAN Ferrostaal finalized contracts regarding a takeover of the Luxembourg-based engineering firm Eurotecnica Melamine S.A. (ETM) to be completed in 2007. ETM is a patent holder of melamine-manufacturing processes. Together with its Milan-based sister company Eurotecnica Contractors & Engineers SpA, the company's business is planning and building facilities that manufacture melamine and other specialty chemicals around the world. By acquiring ETM, we can expand our value-added depth in the construction of petrochemical plants. To date, our focus has been on building methanol and ammonia plants; these two substances are the first to come out when processing natural gas. Melamine is a more highly refined product that is used in the manufacture of car paints, laminates and furniture coatings.

MAN Ferrostaal took over RWE's pulp and paper mill engineering division. In addition, we have acquired a stake in KSH, which is RWE's engineering division in Canada in this segment. RWE Industrie-Lösungen GmbH has carried out numerous large-scale cellulose-related projects over the last several years, including facilities in Indonesia; Estonia; and Stendal, Germany. RWE had been collaborating with MAN Ferrostaal in this sector since 2003. Our strong presence in regions where cellulose plants are being built is one reason to expect continued positive growth in this business area.

Partnership in the Steel Business
The steel unit was also restructured last year. Specifically, we intend to sell off the retail and logistic activities relating to steel products (with annual sales of more than €1 billion) or, alternatively, to find a business partner for these operations. Reorganization is a necessary requirement to ensure continued growth since the expansion prospects that this industry offers can be realized much better outside of MAN Ferrostaal. MAN Ferrostaal's preferred solution would be to hold a minority stake in a joint venture. Retroactively effective to January 1, 2006, the unit has been reported as "discontinued operations."

MAN Ferrostaal received major orders in the petrochemical and fuel industries. For Methanol Holdings (Trinidad) Ltd. (MHTL), we as the general contractor are taking over construction of a facility that will produce ammonia, urea-ammonium nitrate and melamine. The plant complex will comprise seven individual production facilities and will be completed according to the same business model that MAN Ferrostaal already implemented in Trinidad in seven other existing methanol and ammonia refineries. We have assumed responsibility for project development and management for the facility and are working together with established partners, such as KfW (Kreditanstalt für Wiederaufbau, a reconstruction credit institute) and Euler-Hermes as the credit insurer. To a large extent, our technical partners are the ones used in the other

1 billion

euros is the approximate total financing volume that MAN Ferrostaal has arranged on an annual basis.

Trinidad projects, including Helm, Proman and Clico Energy.

In the course of last year, MAN Ferrostaal reached a first milestone in the renewable energies sector. This involved signing a contract for a biodiesel refinery in Poland. The Lotos Group, Poland's second-biggest petroleum company, appointed us as a general contractor to execute the project to its final turnkey state. The plant is configured to provide an annual output of 100,000 metric tons, with completion scheduled for the first half of 2008.

The Hub of the MAN Group

Perhaps most important, however, is the way MAN Ferrostaal is currently redefining its role inside the MAN Group. The most visible step in this direction is our setting up of a new sales and service platform. This is destined to serve the entire MAN Group. To this end, we are employing our international sales and service network to tap additional market potential in collaboration with other MAN subsidiaries. MAN Ferrostaal is pursuing a four-pronged approach in setting up the platform. For one, it is working with MAN Nutzfahrzeuge as a sales and service partner. For another, it is collaborating with MAN Diesel to build a diesel power plant. A third factor is the fact that MAN Ferrostaal also has joint project management contracts arranged with MAN TURBO. Fourthly, collaboration with the MAN subsidiaries will be enhanced through the set-up of MAN units worldwide that will represent all MAN AG companies and allow regional markets to be served from a single source. The first operational unit, called MAN Middle East, has been in business since 2006. More such units will follow soon in China, Iran, the ASEAN (Associaton of Southeast Asian Nations) countries and North America.

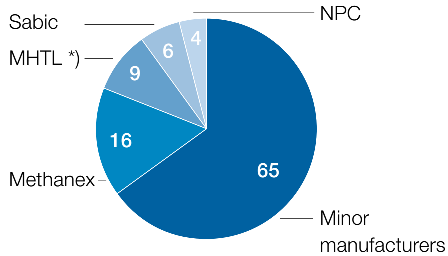
Tried and Tested Collaboration

The operative business with products from other MAN subsidiaries will be expanded with an initial focus in Latin America and Southeast Asia, and then later in Eastern Europe/Central Asia, Africa, the US and the Middle East. The platform's development is facilitated by many years of practical experience we have gathered in collaborating with other MAN Group companies. For example, MAN Ferrostaal has long been supporting MAN TURBO offices in 20 countries throughout Europe and Latin America. In addition, we utilize MAN TURBO turbines and compressors on a regular basis in the industrial plants we build. Lastly, we represent MAN Diesel extensively in the Western Hemisphere, particularly in South America, including, for example, locations such as Chile, Mexico and Venezuela, as well as Peru.

By contrast, close collaboration between MAN Ferrostaal and MAN Nutzfahrzeuge is actually a fairly recent endeavor. In June, MAN Nutzfahrzeuge opened a commercial vehicle manufacturing facility in Querétaro, Mexico, where complete buses such as the MAN Lion's Coach as well as chassis will be assembled. MAN Nutzfahrzeuge will be responsible for production, while MAN Ferrostaal will be taking on sales and service. Over the next few years, we will expand our sales and service network to include 16 support centers. Currently, there are about 1,000 MAN vehicles in Mexico. By 2010, we are expecting sales to reach 1,000 trucks and buses per year. The project is a precursor for a broadly based cooperation in which the respective strengths of MAN Nutzfahrzeuge and MAN Ferrostaal will be combined in other regions of the world as well.

Number two worldwide

Market share in methanol production by annual volume (in %)



*) Methanol Holdings (Trinidad) Limited (MHTL) is a partner of MAN Ferrostaal.

Source: data from the manufacturers; own research

MAN Ferrostaal Group

€ million	2006	2005
Order intake	1,982	1,745
Sales	1,379	1,414
Operating profit	119	64
Headcount (at Dec. 31)	4,290	4,563
Return on sales (ROS) (%)	8.6	4.5
Return on capital employed (ROCE) (%)	31.2	10.9

Manufacturing large-scale components in Venezuela: the projects unit has been growing particularly well.

Methanol as a growth market: Trinidad is one of the world's biggest methanol-producing countries.

THE HUB OF THE MAN GROUP

The Essen-based industrial service provider wants to offer its expertise as a service and sales platform to the Group. Dr. Matthias Mitscherlich, CEO of MAN Ferrostaal, on the prospects of such a collaboration and additional changes within his company.

Dr. Mitscherlich, in the future, MAN Ferrostaal is to serve as the sales and service platform for the MAN Group. What objectives have you chosen for that role?

We want to prepare the market entry of our sister MAN companies in those countries where they are not yet represented. In addition, we will also support sales and service of MAN products in areas where it is obvious that MAN's position has room left for expansion.

“Emerging regional markets include Latin America, Southeast Asia, Eastern Europe and the Middle East.”

What is the rationale behind this strategy?

MAN Ferrostaal has a strong international presence, with branches in 60 countries. We want to use this network in the future to make MAN products accessible to customers around the world and to further MAN's internationalization.

What will collaboration with the other companies actually look like?

We are presently focusing on four projects: cooperating with MAN Nutzfahrzeuge as a sales and service partner; collaborating with MAN Diesel, especially in building diesel-fueled power plants; joint projects with MAN TURBO; and lastly setting up MAN companies worldwide.

What resources are at your disposal to accomplish these objectives?

Besides the close cooperation with MAN's business areas, internally we will use the operational units as well as our organizations abroad, especially since they have valuable market expertise and a worldwide network of contacts. In setting up the platform, we will also be able to apply our established strengths in the areas of project development and project management.

Your company's role as a sales and service platform is new. Are there other areas in which you are planning change?

Yes, indeed. Over the last few years, we have evolved from being an internationally active trading house to become a focused industrial service provider with a clear corporate and performance profile. As a result of this evolution, we have spent the past three years selling off activities, primarily in the areas of conveyor system technology and steel manufacturing and finding new “best owners” for them. But it's not all asset disposal: Consider that we are currently reinforcing our industrial plant construction expertise by pursuing acquisitions in this area.

Will this be your strategic focus?

Exactly. On the one hand, our attention is directed toward the construction of large-scale plants, and on the other, toward international sales and services relating to machines, transportation, automobiles, and products of the MAN Group.

What exactly does that mean?

In the service business, we work with well-known machine manufacturers. In the automobile segment, we offer customized services pertaining to module assembly. We want to expand this business. In the construction of large-scale plants, we are concentrating more and more on the energy and fuels sector. In fact, we're expecting high growth rates in the latter two markets.

How can you benefit from them?

In many cases, we can employ MAN products in these projects, such as MAN TURBO compressors or MAN Diesel engines. At the same time, we are anticipating considerable growth potential for our traditional activities in the petrochemical, oil and gas, and power plant construction segments, and we are currently well on our way to secure this kind of potential.

What regions are of particular interest for MAN Ferrostaal?

The dynamic growth of certain countries, such as Brazil, Russia,

Dr. Matthias Mitscherlich has been a member of the executive board at MAN Ferrostaal AG, based in Essen, since 2002. He previously held executive positions at several international companies.

India and China, is generating a tremendous increase in the global demand for energy. At the same time, worldwide demand for oil and gas-based products is also very high. In particular, we believe that emerging regional markets include Latin America, Southeast Asia, North Africa and Eastern Europe, as well as the Middle East.

How do you plan on penetrating these growth markets?

These countries have traditionally had extensive oil and gas deposits. As a consequence, they will continue to make major investments to extract and process oil and gas. We have been present in these regions for decades, and that is the reason we are keen to continue supporting our customers in setting up additional industrial facilities as well as energy supply facilities.

What qualities differentiate MAN Ferrostaal from its competitors in this area?

Though technological expertise is paramount, it is not sufficient for many of these projects. This is because they often can only be executed by means of intelligent financing arrangements. The solutions that we offer our customers with the assistance of international banks are one of our core competencies and often give us a sizable head start over the competition.

What does the future of the steel trade look like?

Our plan is to open up our steel-related activities to a partnership with a majority stakeholder. We created the foundation for that last year. In this context, we hope to better realize the growth potential in this sector.

What makes you think so?

The objective of this new group is to have a key role in the steel trade and to substantially increase the business volume. If we have a partner, we will be able to expand our international customer and supply base and take advantage of synergies that exist in terms of products, services and markets.

Have you already found the right partner?

The search is going very well. We have focused on international steel companies and other companies operating in the downstream sector that provide services that complement our portfolio. We want to successfully complete this process over the course of 2007.

What sales objectives have you set for 2007?

Based on our planning, we will have the same sales volume as last year. Over the medium term, we will compensate for the loss in sales that resulted from reorganizing the steel business. In regard to our operating result, we are looking to increase that again next year.

An eventful year beneath the logo's arch: The MAN Group is well positioned for the future.

MAN Group Management Report

for fiscal year 2006

Highlights

2006: The best-ever year in MAN's history

– Operating profit: €1.1 billion (up 64%), EpS: €5.05 (up 84%)
– Sharp rise in dividend: €1.50 (up from €1.35) plus bonus of €0.50
– ROS at 8.5% (up from 5.9%), ROCE at 28.0% (up from 19.1%)
– Business volume surge: sales up 15%, order intake up 16%
– Commercial Vehicles: sales up 18%, intake (excl. MoD*) up 22%

Transport-Related Engineering: focusing and expanding

– Initiative for commercial vehicle market consolidation
– International growth through new commercial vehicle plants in Poland, India, and Mexico
– Divestments of €3.1 billion (sales) completed or under preparation

Prospects 2007

– Ongoing growth in all areas
– Sales expected to advance by 5+%
– ROS to reach 9.0%

*) Order from the Ministry of Defence (MoD) to MAN Nutzfahrzeuge in 2005 and 2006

The MAN Group: business and strategy

The MAN Group

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. in 1908, 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 one headquarters at the top and subsidiaries running their own business operations yet anchored to the parent through P&L transfer and direct-control agreements.

Nowadays, 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 50,000 in 120 countries, the Group operates in four core areas of business: Commercial Vehicles, Diesel Engines, Turbo Machinery, and Industrial Services. Heading the MAN Group is MAN AG, the Group's corporate center and parent. In 2006, the MAN Group generated sales of €13.0 billion and an operating profit of €1,105 million.

Industrial Governance leadership system
For the strategic leadership of the MAN Group we have developed an Industrial Governance system. This strengthens the entrepreneurial forces within the business areas through clear strategic focus. The strategic leadership of the Group is the responsibility of the Management Board of MAN AG on which all the core areas are represented. Each of the MAN business areas must be able to develop independently within the Group; each must measure itself against the strongest competitor in its market. Benchmarks have been set for the business areas and these must be achieved on average within any one economic cycle. Losses are not tolerated; neither is cross-subsidizing among the business areas. It is the task of corporate center to develop group strategy and structure, advance and deploy management staff, carry out target-oriented controlling, and provide central finance to the Group. Accompanying this concept are methods and services shared out among the MAN Group's companies that require these.

The business areas: an overview
In terms of market shares, MAN Nutzfahrzeuge is among the foremost manufacturers of commercial vehicles in Europe, with production plants in four European countries. The product range reaches from trucks with a GVW between 7.5 and 50 t for both short- and long-haul service, trucks for military use and public purposes, regular service and tourist buses and coaches to combustion ignition (CI) and spark ignited (SI) engines for vehicles, ships, and power generation. The MAN Finance affiliate provides financing arrangements for commercial vehicle customers, in particular leasing options. These activities are backed by an international marketing and service network. With sales of €8.7 billion and an operating profit of €698 million including Financial Services, MAN Nutzfahrzeuge is the MAN Group's biggest business area.

MAN Diesel is one of the world's leading developers and manufacturers of large diesel engines, chiefly for marine applications but also for stationary use. The business area commands a strong market position both in the development of two-stroke diesels for the propulsion systems of large ships and in the manufacture of four-stroke diesel engines used in the propulsion of smaller vessels and as stationary engines for power plant energy production. Whereas the two-stroke engines are chiefly built by licensees, MAN Diesel itself manufactures most of the four-stroke engines at its locations in Germany, Denmark, and France. The area's sales added up to €1.8 billion; the operating profit reached €229 million.

MAN TURBO is a manufacturer of turbo compressors, industrial turbines, and chemical reactor systems. This business area markets a complete range of turbomachines for a variety of industries such as oil and gas, refinery, and chemical as well as for the production of industrial gases and electricity. The product range is supplemented by comprehensive after-sales service operations. This business area posted sales of €0.9 billion and an operating profit of €71 million.

MAN Ferrostaal is a global supplier of industrial services and systems while also acting as general contractor for project development, management, and financing arrangements. The lineup focuses on turnkey projects for industrial plant including the related financing and operator concepts, as well as on the marketing of capital goods. Another specialty of MAN Ferrostaal is just-in-sequence assembly services for the automotive industry. Sales in 2006 reached €1.4 billion (excl. Steel Trade), the operating profit amounted to €119 million.

The MAN Group's strategy and strengths

The MAN Group's corporate goal is profitable growth through competitive products and services, as well as the addition of value to MAN. To stay on track in pursuance of this goal we have defined our strategy through the following challenges.

Concentration on core areas
MAN's focus is Transport-Related Engineering. The Group's manufacturing areas concentrate on businesses that relate to the growth markets of transport, propulsion, and energy. It is our intent to grow these areas through expenditures and acquisitions and expand their leading positions. Industrial Services exercises a supporting function as worldwide marketing and service platform.

International expansion
MAN is a global group that is further expanding its international presence in terms of production and its marketing and after-sales service networks in order to more efficiently exploit existing market potentials and seize the opportunities offered by attractive growth markets, all through acquisitions, alliances, and capital expenditures for production, sales and services.

Strengthening the business areas' competitiveness and profitability
MAN concentrates on expanding markets with strong earnings potential. Concurrently, one of our chief objectives is to rank among the most profitable suppliers in the respective markets. We measure our business areas against our strongest rivals and base our entrepreneurial decisions on the outcome of such comparisons. With the aid of ultramodern production facilities and marketing and logistics structures, on the one hand, and an after-sales service organization in close customer proximity, on the other, we will further enhance our profitability while devoting special attention to achieving financial indicators that are both strong and stable.

Steadily adding value
Profitable growth in attractive markets is essential to upgrading MAN's value. This we measure with the aid of a control system based on operating profit, the return on sales (ROS) and the return on capital employed (ROCE). A key factor we see in the addition of such value is excellent cash conversion that allows us to transform high operating profits into high cash inflow and, through a judicious expenditure policy, into a high free cash flow.

Harnessing group synergies
The synthesis of individual strengths and the product expertise of the individual business areas offers potential synergies that are exploited through close cooperation among the business areas and the selective support by MAN AG's corporate functions, thus furthering the Group's expansion potential. Within this framework, MAN Ferrostaal acts as a project partner for the other MAN Group companies.

Acquisitions and divestments

In our efforts to strategically realign the MAN Group, we pressed ahead with our focus on Transport-Related Engineering in fiscal 2006.

Divestments
A key component on the selling side of this process was the divestment of Printing Systems, a business area generating in 2005 sales of €1.7 billion and an operating profit of €65 million. With a view to offering this business area best possible opportunities for its stand-alone development, we sold our stake in MAN Roland Druckmaschinen to Allianz Capital Partners (ACP). ACP will provide MAN Roland with the financial muscle and support to grow on its own two feet. Since this transfer, MAN AG has held a 35-percent share in the new company which it will chaperon until it may eventually go public in the years to come. The transfer deal was closed at a price of €624 million and produced an aftertax capital gain of €160 million. From this transaction, MAN received a cash inflow of €255 million (after offset against the cash and cash equivalents tied up in customer prepayments and after deducting the capital contribution to the new investee).

MAN Ferrostaal also pushed ahead with its refocusing strategy in 2006. The Steel Trade unit was restructured in the course of the year and is set to be sold in 2007. Steel Trade's business volume in terms of 2005 sales is around €1.4 billion. Also shed were MAN TAKRAF Fördertechnik and several marginal businesses.

In 2006 the MAN Group transacted or prepared divestments equivalent to sales of €3.1 billion. Together with the businesses disposed of in 2005—Schwäbische Hüttenwerke, MAN Technologie, MAN WOLFFKRAN, and MAN Logistics—the divestees account for total sales of €3.6 billion.

Acquisitions and expansion expenditures in 2006
MAN Nutzfahrzeuge began work in 2006 on the construction of a new assembly plant in Kraków, Poland, which represents a major milestone in the company's international growth strategy aimed at attaining by 2010 annual shipments of at least 100,000 trucks. In the medium term, the new plant and its some 650 employees are set to produce annually 15,000 heavy-duty trucks for the growth regions of C&E Europe, Russia, South Africa, and the Middle East.

As part of its expansion strategy for the mushrooming markets of India and elsewhere in Asia, MAN Nutzfahrzeuge has together with the Indian company Force Motors formed MAN FORCE TRUCKS in which MAN holds a 30-percent stake. The venture's purpose is to produce heavy-duty MAN and FORCE trucks for India and MAN trucks for markets outside India. The two venturers will also cooperate in purchasing as well as in truck development and marketing.

Work started jointly by MAN Nutzfahrzeuge and MAN Ferrostaal in Mexico on the construction of a bus assembly plant with a capacity of 1,000 units annually. As from 2007, this plant will feed the Mexican market.

Turbo Machinery took over the steam turbine business of B+V Industrietechnik (BVI), Hamburg (formerly Blohm + Voss), thus broadening its lineup to include the 2–20 MW range.

Bid for Scania

When devising its strategic plan for the Group, MAN AG's Executive Board has delved into the future development of the commercial vehicle market and the sector of commercial vehicle manufacturers. Accelerating globalization, changing customer priorities and far stricter emission standards offer the worldwide commercial vehicle business inviting growth prospects but will entail fiercer competition, too. In the future, such challenges are likely to reshape this industry and lead to a consolidation of manufacturers.

In anticipation of this trend, MAN AG's Executive Board announced on September 18, 2006, its decision to submit a public bid to the stockholders of Scania Aktiebolag ("Scania") for the takeover of all Scania shares. This offering purposed to combine two strong competitors, thus laying the cornerstone of international profitable growth. The plan foresaw the formation of a German-Swedish group with the legal form of a European corporation (SE) to pursue a consistent twin-brand strategy.

The official offering document was published on November 16, 2006. Scania stockholders were offered either a combination of cash and MAN AG common stock or only cash, in return for their Scania shares. On October 12, 2006, after MAN had acquired a 14.5-percent voting interest in Scania, the offering amounted to €51.29 per share, equivalent to a total Scania value of around €10.3 billion. In January 2007, MAN AG purchased further Scania stock, bringing its capital and voting right stakes in Scania AB to 13.2 and 14.8 percent, respectively.

On December 20, 2006, the European Commission communicated that the envisaged transaction had been approved unconditionally as compliant with the EU Merger Control Regulation.

Meetings and discussions with Scania's major stockholders, Volkswagen and Investor (a holding company owned by the Wallenberg family), showed that these investors, albeit endorsing the industrial logic of such a combination, would not give their approval to the planned transaction. On January 23, 2007, MAN therefore announced its application to the Swedish Securities Exchange Supervisory Authority for withdrawal of the public offering (originally due to expire January 31, 2007). The withdrawal was approved on January 24, 2007. The intention is now in the course of 2007 to negotiate with all parties concerned an amicable business combination.

Business trend and results of operations 2006

Economic environment

The world economy showed vigorous growth in 2006, outpacing year-start expectations and at 5 percent topping the several-year average. The emerging nations of Asia again achieved dynamic progress, as did North America, albeit at a receding rate.

The economy in the eurozone also perceptibly accelerated in 2006, increasingly propelled by stronger domestic demand. Capital expenditures pulled ahead while private consumption picked up, too, thanks to declining unemployment. At 2.5 percent, economic growth was the steepest for five years.

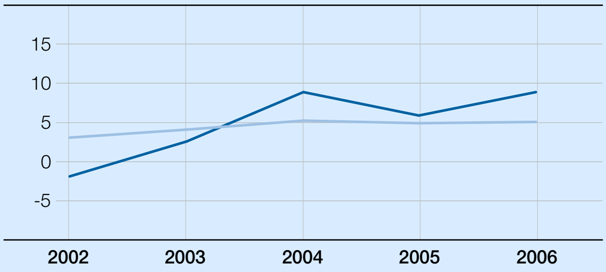
The upturn in the German economy gained considerably in pace, broadening out in 2006. Alongside still burgeoning exports (up 14 percent in 2006), capital expenditures took on the role of a second driving force. After over a decade of gloom, even the building and construction trade sent out initial encouraging signals. Industrial production posted a 6-percent rise over 2005. Some rapidly growing sectors are even re-expanding their workforces.

It was in the sectors of transport, propulsion and energy—important to MAN—that worldwide demand remained unabated. Commercial vehicle shipments in Europe, our most important market, added up to 388,000 units, a growth versus 2005 of 7.2 percent. In shipbuilding, the key sales market for our diesel engines, orders booked in 2006 surged to an equivalent of 89.9 million GT (up 46 percent), thus topping the all-time high of 2004 by 8.5 percent.

The strong performance of 2006 is an endorsement of the MAN Group's strategy of focusing on Transport-Related Engineering products which show better-than-average growth among capital goods. Given the dynamic upswing of the emerging nations, these, too, can be expected to advance by leaps and bounds

Economic trend

in %



GDP global economic growth rate

Growth of worldwide demand for German capital goods

Restated 2005 comparatives

The divestment of Printing Systems (consummated) and Industrial Services' Steel Trade (intended) has significantly downsized the MAN Group's business volume. For enhanced comparability we have restated the 2005 data accordingly. For details of the adjustments see Note (8) to the consolidated financial statements. The divestees of fiscal 2005 and the SMS Group (sold in 2003) have additionally been eliminated from the data in the 5-year trend charts.

	Order intake	Sales	Order backlog	Employees	Operating profit
	€ mill.	€ mill.	€ mill.	Number	€ mill.
2005 published	17,994	14,671	10,893	58,203	765
Adjustment Printing Systems	(2,109)	(1,738)	(1,494)	(8,832)	(65)
Adjustment Steel Trade	(1,332)	(1,375)	(320)	(210)	(26)
Others/Consolidation	(215)	(179)	(583)	—	—
2005 like-for-like	14,338	11,379	8,496	49,161	674

Order situation

The MAN Group looks back on an outstanding fiscal year: order intake and sales mushroomed, the operating profit, ROS and ROCE all surged to new highs. The robust growth led to an increase in workforce.

Double-digit increase in order intake
The MAN Group's order intake mirrors the congenial international economy and the high esteem enjoyed by our products and services on the part of customers. At €16.6 billion, the prior-year figure of €14.3 billion was topped by 16 percent.

The expanding global economy is fueling worldwide demand for transport, a factor that influences the buoyant order intake at our manufacturing business areas (Commercial Vehicles, Diesel Engines, and Turbo Machinery) all of which improved on their 2005 record figures.

At €2.2 billion and just as in the previous year (€2.8 billion), the MAN Group booked an unusually high share of megaorders. The year before MAN Nutzfahrzeuge had booked the first batch worth €1.4 billion from the British Ministry of Defence (MoD) and this was followed in 2006 by a second batch for another €262 million. In late 2006, MAN Ferrostaal received an order from Trinidad & Tobago valued at €833 million to build a petrochemical complex for producing ammonia, urea ammonia nitrate and melamine (AUM plant). Excluding megacontracts, order intake by the MAN Group was up by 24 percent during the period under review.

Adjusted for the MoD contracts, Commercial Vehicles posted a 22-percent gain in orders received. Diesel Engines also recorded a double-digit hike (up 19 percent). The surge at Turbo Machinery (up 76 percent) is attributable to a variety of influences: primarily ongoing strong demand, but also the assignment of MAN DWE to this business area, and the acquisition of BVI's steam turbine manufacturing unit. Order inflow at Industrial Services was up by 14 percent.

Order intake by business area

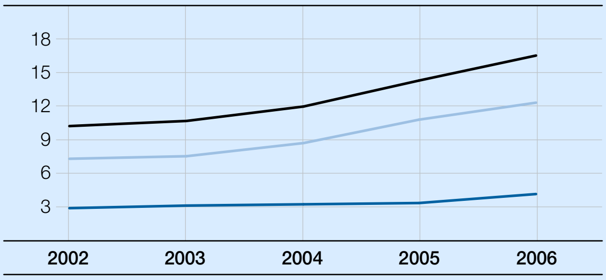
€ million	2006	%	2005	%
Commercial Vehicles	10,103	61	9,434	66
Commercial Vehicles excl. MoD	9,841		8,076	
Diesel Engines	2,619	16	2,203	15
Turbo Machinery	1,498	9	850	6
Industrial Services	1,982	12	1,745	12
Others	538	3	428	3
Consolidation	(173)	(1)	(322)	(2)
MAN Group	**16,567**	**100**	**14,338**	**100**
MAN Group excl. MoD	**16,305**		**12,980**	

Order intake by region

€ million	2006	%	2005	%
Germany	4,151	25	3,373	24
Other EU	5,683	34	5,840	41
Other Europe	1,667	10	1,251	9
Asia	2,369	14	2,369	16
Americas	1,817	11	880	6
Africa	749	5	495	3
Australia and Oceania	131	1	130	1
MAN Group	**16,567**	**100**	**14,338**	**100**

5-year order intake trend

€ billion



Order intake in Germany at €4.2 billion rose 23 percent above the 2005 level. Elsewhere in Europe, despite the high baseline due to the 2005 MoD contract, order intake still climbed 4 percent. Asian countries, again recording high growth, awarded contracts at a value of €2.4 billion—chiefly from Southeast Asia and the Near & Middle East. Orders from the Americas mushroomed 106 percent, mainly due to the AUM contract.

Strong sales swell

Sales jumped 15 percent to €13.0 billion. Commercial Vehicles revved up its sales by 18 percent to €8.7 billion, its Trucks unit reporting 16-percent growth to €7.2 billion and Buses a 26-percent leap to €1.5 billion. Diesel Engines climbed 8 percent to €1.8 billion, fully employed manufacturing capacity standing in the way of greater growth in this business area. Sales by Turbo Machinery accelerated 31 percent to €0.9 billion while at Industrial Services revenues edged down 2 percent to €1.4 billion for invoice-timing reasons since it was only toward year-end that sizable contracts were booked.

Domestic sales outnumbered the prior year's by 9 percent, Commercial Vehicles' rising 17 percent alone. Following the divestments in 2006, Commercial Vehicles now accounts for 79 percent of MAN's sales in Germany.

Sales by business area

€ million	2006	%	2005	%
Commercial Vehicles	8,685	67	7,377	65
Diesel Engines	1,802	14	1,666	15
Turbo Machinery	908	7	694	6
Industrial Services	1,379	10	1,414	12
Others	477	4	377	3
Consolidation	(202)	(2)	(149)	(1)
MAN Group	**13,049**	**100**	**11,379**	**100**

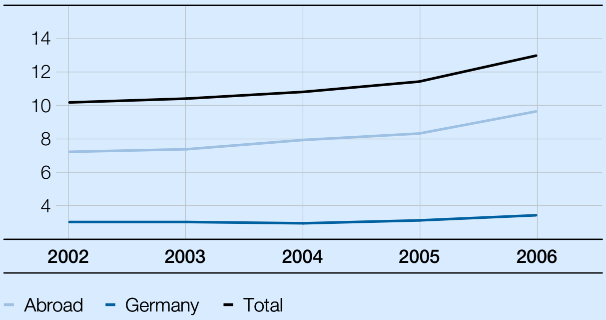
Sales by region

€ million	2006	%	2005	%
Germany	3,394	26	3,103	27
Other EU	4,784	37	4,141	36
Other Europe	1,281	10	1,021	9
Asia	1,989	15	1,561	14
Americas	802	6	871	8
Africa	671	5	551	5
Australia and Oceania	128	1	131	1
MAN Group	**13,049**	**100**	**11,379**	**100**

Outside Germany, our sales within Europe jumped 17 percent to €6.1 billion. Boom business in this geographical market was also generated by Commercial Vehicles (up 17 percent) and Turbo Machinery (up 43 percent) while Diesel Engines and Industrial Services replicated their year-earlier performances. The MAN Group's Asian sales soared 27 percent to €2.0 billion. In fact, all business areas achieved substantial progress in this part of the world and for the Group as such, Asia is second only to the EU as the most important sales region.

5-year sales growth trend

€ billion



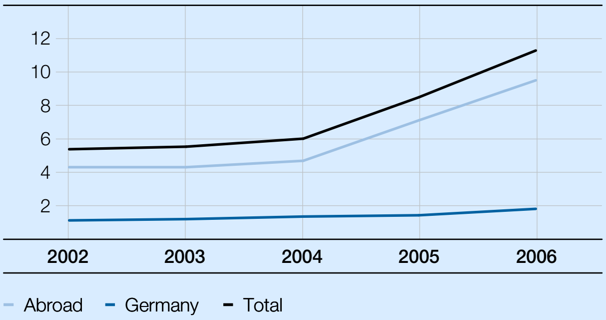
Sales, too, soared during the past five years, by €2.8 billion from 2002 to 2006, corresponding to an annual average growth rate of 6.2 percent.

Order backlog tops €11 billion

Our production plants were working to capacity in 2006 and so, sales growth failed to keep pace with the rush of new contracts received, order backlog mushrooming to a record €11.3 billion. All business areas benefited, Commercial Vehicles' order backlog accelerating by as much as 31 percent. In all, this abundance of orders provides a sound base for production plant workload over the years ahead.

5-year order backlog trend

€ billion



Over the past five years, year-end order backlog has nigh doubled. As of December 31, 2006, the ratio of backlog to sales was tantamount to a range of ten months.

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Operating profit

€ million	2006	2005
Commercial Vehicles	670	469
Commercial Vehicles incl. Financial Services	698	497
Diesel Engines	229	117
Turbo Machinery	71	43
Industrial Services	119	64
Others	78	64
Corporate Center	(68)	(63)
Consolidation	6	(20)
Operating profit	**1,105**	**674**

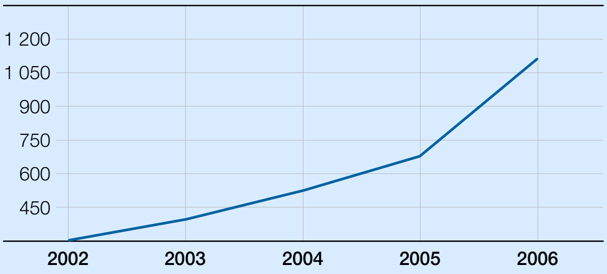
In fiscal 2006, the MAN Group greatly boosted its operating profit to a new record high, by €431 million or 64 percent to €1,105 million. The operating profits and returns of all the business areas benefited from volume growth and further perfected business processes and work flows. Operating profit therefore outpaced the 15-percent rise in sales by far.

Commercial Vehicles reported an operating profit leap by €201 million or 43 percent to €670 million. Together with the operating profit of MAN Finance, which now that Printing Systems has been sold finances almost exclusively commercial vehicles and will therefore be assigned to MAN Nutzfahrzeuge, Commercial Vehicles' even came to €698 million. Diesel Engines virtually doubled its operating profit to €229 million. Industrial Services and Turbo Machinery revved up their operating profits by €55 million or 86 percent to €119 million and €28 million or 65 percent to €71 million, respectively. On balance, the Other business area (Other investees plus corporate center) substantially repeated its prior-year performance, as did the Corporate Center whose costs included the €20 million expenses for the Scania takeover bid.

For details of the business and performance trends of each business area, turn to page 117 onward of this management report.

5-year trend of operating profit

€ million



The steep uptrend displayed by the MAN Group is particularly conspicuous when looking at the operating profit which has risen since 2002, more than trebling in the past five years from €302 million to €1.1 billion.

Income statement

	2006		2005	
	€ million	in %	€ million	in %
Net sales	13,049	100.0	11,379	100.0
Cost of sales	(10,161)	(77.9)	(8,943)	(78.6)
Gross margin	2,888	22.1	2,436	21.4
Other operating income	609	4.7	682	6.0
Selling expenses	(813)	(6.2)	(781)	(6.9)
General admin. expenses	(679)	(5.2)	(612)	(5.4)
Other operating expenses*)	(950)	(7.3)	(1,095)	(9.6)
Net investment income	50	0.4	44	0.4
Operating profit	**1,105**	**8.5**	**674**	**5.9**

*) in 2005 excl. one-time effects

Cost of sales in 2006 climbed 14 percent. Since sales grew 15 percent, the gross margin edged up from 21 to 22 percent. The gross margin of Commercial Vehicles and Turbo Machinery was upgraded by 0.3 and 1.2 percentage points, respectively, Diesel Engines' improving 5.0 percentage points.

Selling expenses in 2006 inched up 4 percent to €813 million, largely due to the expansion of the Commercial Vehicles distribution network.

General administrative expenses totaled €679 million and accounted for 5.2 percent of net sales (down from 5.4).

Other operating income mainly includes MAN Finance's revenue from leases. This caption's €73 million decline was basically the result of a shift from operating leases to capital leases. Higher gains and income from financial instruments had a balancing effect.

The other operating expenses shrank by €145 million to €950 million. Besides the lower additions to business-related accruals, the change in MAN Finance's lease portfolio had a diminishing effect.

Reconciliation of operating profit to net income:

€ million	2006	2005
Operating profit	**1,105**	**674**
Net loss from nonrecurring factors	—	(37)
Net interest expense	(82)	(62)
EBT	**1,023**	**575**
Income taxes	(273)	(160)
Posttax profit of discontinued operations	175	57
Net income (EAT)	**925**	**472**
EpS of continuing operations (€)	5.05	2.75
Distribution per share in €	2.00	1.35

The net interest expense of €82 million reflects the net of interest on bank credit and debit balances and of interest on accrued pension obligations, the main reasons for its rise being the fees for committing the credit facility and the interest for funding the Scania stock purchase. The MAN Group's EBT soared €448 million to €1,023 million.

The Group's tax expense surged substantially in line with the operating profit growth, by €113 million to €273 million, the tax load ratio thus edging down from 27.8 to 26.7 percent. This ratio is composed of the various tax rates of German and foreign subsidiaries, taxes of prior periods, and tax-exempt income.

In 2006 MAN AG disposed of its stake in Printing Systems. Moreover, MAN Ferrostaal's Steel Trade operations are up for sale in 2007. Since these companies have already been carried as discontinued operations in 2006, their income and expenses are no longer included in the reported financial information but is shown in a separate line outside operating profit. The posttax profit of discontinued operations of €175 million is allocable at €160 million and €15 million to the divestment of Printing Systems and to Steel Trade's operating activities, respectively.

The MAN Group's net income (EAT) ballooned 96 percent to reach €925 million. Earnings per share (EpS) of continuing operations improved from €2.75 to €5.05.

Proposed distribution:
€1.50 dividend plus €0.50 bonus
MAN AG's Executive and Supervisory Boards propose to the annual stockholders' meeting to distribute a cash dividend of €1.50 (up from €1.35) plus a €0.50 bonus per share, corresponding to a 48-percent or €0.65 upgrade per share.

Beyond expectations

The outstanding overall business success has by far surpassed all expectations we had when writing last year's management report, and substantially been spurred by a steep demand upswing, which resulted in higher workloads and sales, and also by the impact of our cost-cutting programs. The originally envisaged high single-digit growth rate was considerably outnumbered by the actual 15-percent sales increase. The 2006 return on sales of 8.5 percent also well outperformed the 6.0 percent we budgeted a year ago. Operating profit and ROCE, too, exceeded our January 2006 predictions. When this general uptrend emerged in sufficiently specific outlines in the course of the period, we commensurately revised upward and communicated our expectations.

Controlling system and VA management

Focal financial controlling parameters within the MAN Group are operating profit, return on sales (ROS), and return on capital employed (ROCE). 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, as are major portions of variable management compensation.

Operating profit
Prime parameter for assessing and controlling a business area's profitability is the operating profit. As a rule, operating profit equals EBIT. Exceptionally high expenses and gains that originate from extraordinary events or sources outside ordinary business operations are eliminated restrictively on a case-by-case basis. In fiscal 2006, no such adjustments were made while in 2005, they were required for the expenses caused by the closedown of two plants.

Since fiscal 2006 we have shown interest expenses from refinancing leased assets as other operating expenses and no longer as part of the net interest result, the revenue from leases being reported as other operating income. Therefore, the operating profit of Financial Services equals EBIT before nonrecurring items.

For the breakdown of operating profit by business area, see page 103.

ROS

%	2006	2005
Commercial Vehicles	7.7	6.4
Commercial Vehicles incl. Financial Services	8.0	6.7
Diesel Engines	12.7	7.1
Turbo Machinery	7.8	6.2
Industrial Services	8.6	4.5
MAN Group	**8.5**	**5.9**

MAN defines ROS as the ratio of operating profit to net sales.

Target ROS has been set at 6.0 percent for the MAN Group. At business area level, an ROS of 7.0 percent must be targeted by Commercial Vehicles and one of 6.5 percent by the other Industrial Business areas, these targets having to be achieved on average within any one economic cycle. The tolerance range is ±1.5 percentage points (±2.5 for Diesel Engines) to allow for strong and poor phases within an economic cycle.

In 2006 and for the first time, the MAN Group has at 8.5 percent definitely overachieved its target ROS (up from 5.9 percent). All business areas contributed and boosted their ROS.

Thanks to a steep business volume upturn and cost cuts, Commercial Vehicles pushed up its ROS from 6.4 to 7.7 percent, its Trucks unit reporting an ROS of 8.8 percent (up from 7.0). Including Financial Services, since the disposal in 2006 of Printing Systems now financing almost exclusively commercial vehicles, Commercial Vehicles' ROS even came to 8.0 percent (up from 6.7).

The remaining business areas, too, upgraded their return on sales significantly. Diesel Engines as the MAN Group's most profitable core area, revved up its ROS from 7.1 to 12.7 percent. Due to a considerable business volume upswing and finer-tuned work flows for added efficiency, Turbo Machinery's sales returned an operating profit of 7.8 percent (up from 6.2) while Industrial Services virtually doubled its ROS to 8.6 percent (up from 4.5), excluding for both years the Steel Trade.

ROCE

€ million	2006	2005 **)
Equity	3,779	3,278
Pension obligations	946	1,185
Financial liabilities	2,108	1,018
	6,833	**5,481**
Debt-funded volume of MAN Finance	(1,727)	(1,359)
Total CE of the MAN Group at Dec. 31	**5,106**	**4,122**
Annual average CE of the MAN Group	**4,222**	**4,010**
Operating profit*)	**1,181**	**765**
ROCE in %	**28.0**	**19.1**

*) incl. the discontinued operations' operating profit of €76 million (down from €91 million)
**) prior-year data not adjusted

The return on capital employed (ROCE) relates operating profit to the 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-funded volume of MAN Finance. The operating profit also accounts for that of discontinued operations up to the date of their disposal as these operations are funded from the Group's capital.

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 all accruals and liabilities other than financial liabilities, pension accruals and tax liabilities. Since fiscal 2006, prepayments received have only been deducted to the extent that they have already been appropriated to work in process. The prior-year comparatives have been restated accordingly.

The ROCE benchmark is 18 percent for the MAN Group and, at 28.0 percent for 2006, has clearly been exceeded (up from 19.1 percent).

WACC

The Group's weighted average cost of capital (WACC) corresponds to the minimum return investors expect to earn for their capital and the investment risk. It is determined as the weighted average cost of equity and debt, equity cost being calculated on a CAPM (capital asset pricing model) basis by applying an interest rate for long-term risk-free investments plus a premium for the specific risk from investing in MAN stock. Debt cost, too, is based on an interest rate for risk-free investments plus a risk premium for long-term investments in corporates.

With pretax cost factors of 13.5 and 4.5 percent for equity and debt, respectively, weighted according to market values, the MAN Group's current pretax WACC comes to 11.0 percent.

We maintain WACC (based on 11.0 percent pretax, including equity cost of 13.5 percent) as control parameter for ROCE benchmarking and hence at this level over a longer period of time.

MAN Value Added (MAN VA)

This financial indicator shows if the MAN Group and its business areas have earned their cost of capital and added value beyond. MAN VA equals the difference between our 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 equity of 13.5 percent, times its average equity.

The MAN Group added value of €717 million in 2006, more than double the prior year's €321 million. All business areas outearned their WACC, generating MAN VA beyond. Despite the Group's slightly higher average CE due to the Scania stock purchase, ROCE was boosted by the surging operating profit yielded by all Industrial Business areas.

ROCE and MAN VA by business area 2006

€ million	Operating profit	Average CE	ROCE in %	WACC in %	Spread in % pts.	MAN VA
Commercial Vehicles	670	2,498	26.8	11.0	15.8	395
Diesel Engines	229	492	46.6	11.0	35.6	175
Turbo Machinery	71	232	30.5	11.0	19.5	45
Industrial Services	119	382	31.2	11.0	20.2	77
Others [1]	64	476	–	–	–	17
Total Industrial Business [1]	**1,153**	**4,080**	**28.3**	**11.0**	**17.3**	**709**
Financial Services [2]	28	142	19.5	13.5	6.0	8
MAN Group [1]	**1,181**	**4,222**	**28.0**	**–**	**–**	**717**

[1] incl. the €76 million operating profit of discontinued operations
[2] equity or ROE for Financial Services

ROCE and MAN VA by business area 2005

€ million	Operating profit	Average CE	ROCE in %	WACC in %	Spread in % pts.	MAN VA
Commercial Vehicles	469	2,623	17.9	11.0	6.9	181
Diesel Engines	117	514	22.8	11.0	11.8	61
Turbo Machinery	43	231	18.5	11.0	7.5	17
Industrial Services	64	584	10.9	11.0	(0.1)	(1)
Others [1]	44	(83)	–	–	–	54
Total Industrial Business [1]	**737**	**3,869**	**19.0**	**11.0**	**8.0**	**312**
Financial Services [2]	28	141	20.0	13.5	6.5	9
MAN Group [1]	**765**	**4,010**	**19.1**	**–**	**–**	**321**

[1] incl. the €91 million operating profit of discontinued operations
[2] equity or ROE for Financial Services
[3] LFL, without accounting for prepayments received but not appropriated

Financial position

Principles and objectives of financial management

The MAN Group's finances are centrally managed by MAN AG which decides on the intragroup allocation of financial resources, secures the Group's financial independence and liquidity, and communicates on the entire Group's behalf with the capital markets. MAN AG's Executive Board is responsible for the due and proper conduct of financial transactions, as well as for the deployment of an appropriate financial risk management system, throughout the Group.

The tasks and purposes of financial management are to secure liquidity at all times, contain financial risks, and add value to MAN.

Securing liquidity at all times includes, besides ensuring solvency in the narrow sense, the availability of the necessary financial scope for underlyings, customer order processing, the Group's supply with cash and cash equivalents, and the management of collateral security furnished. It is essential that financial risks be contained, mainly those affecting enterprise value and profitability, such as currency, interest rate and price risks inherent in commodities or any other price risks whatsoever, as well as counterparty and country risks. Financial management adds value to MAN by optimizing the results of all financial moves and transactions, the efficiency of handling and processing, as well as liquidity and the Group's asset and capital structure, and by analyzing and limiting risks.

For achieving these objectives, the additional principles applying groupwide to all financial activities are maintenance of financial independence, safeguarding of financial unity, and orientation of finance toward underlyings.

Cashflow

For the MAN Group's consolidated statement of cash flows, turn to pages 139 and 140. For a conclusive, explanatory analysis of the financial position, financial information is broken down into Industrial Business and Financial Services; the latter (after disposal in 2006 of Printing Systems) substantially includes customer financing transactions of MAN Finance for commercial vehicles leased to customers.

The table below analyzes the movement of our net liquid assets, a financial controlling parameter consisting of cash and cash equivalents, securities and financial liabilities.

	Industrial Business		Financial Services	
€ million	**2006**	**2005**	**2006**	**2005**
Net liquid assets/(Net financial debt) at Jan. 1	**1,270**	**624**	**(1,097)**	**(616)**
Cash earnings	923	847	40	29
Change in net CE in inventories, prepayments, receivables and payables	197	419	(277)	(236)
Change in net CE in assets leased out	(38)	(50)	(125)	(156)
Change in net CE in other current assets	112	360	(55)	54
Cash flow from operating activities	1,194	1,576	(417)	(309)
Cash flow from investing activities	(1,321)	(347)	(8)	(31)
Free cash flow	(127)	1,229	(425)	(340)
Cash flow from net liquid asset financing activities	(549)	(640)	(17)	(19)
Cash-based change in net liquid assets	**(676)**	**589**	**(442)**	**(359)**
Other changes in net liquid assets	(22)	57	21	(122)
Net liquid assets/(Net financial debt) at Dec. 31	**572**	**1,270**	**(1,518)**	**(1,097)**

Industrial Business earned cash of €923 million (up by €76 million). These cash earnings correspond to a €431 million increase in the cash inflow from operating profit, less a €298 million rise in current income taxes.

Despite the higher sales, we pruned in 2006 the net capital employed in inventories, prepayments, trade receivables and trade payables, thus providing net cash of €197 million after this downscaling program had already provided €419 million the year before. This net cash was generated since the increase in capital employed in inventories and trade receivables was outcompensated by higher customer prepayments and trade payables. The cash outflow of €38 million for the sale of commercial vehicles subject to buyback obligation (excluding the leases of Financial Services) inched down only slightly from the 2005 level as the higher volume could largely be financed by rising customer payments. Moreover, we downscaled the funds tied up in the remaining working capital by another €112 million after we had already slashed them in 2005 by €360 million.

Net cash of €1,321 million was used in investing activities (up from €347 million), the lion's share of €1,174 million to purchase Scania stock. Industrial Business stepped up its other investing activities considerably, spending altogether €470 million (up from €369 million). The cash inflow from the divestment of Printing Systems came to €255 million and that from other disposals totaled €68 million (up from €22 million).

The free cash flow from Industrial Business's operating and investing activities thus dropped to a red €127 million (down from a black €1,229 million). Excluding the Scania stock purchase, the free cash flow would in 2006 have amounted to a black €1,047 million, substantially the level of Industrial Business's operating profit of €1,077 million.

The net cash of €549 million used in financing activities (down from €640 million) reflects another €310 million endowment for MAN Pension Trust e.V., provided for covering our German pension obligations, as well as a transfer of €53 million to foreign pension plans. In addition, this net cash includes the dividend payout for 2005 at €203 million (up from €159 million) which, in turn, was offset by the €17 million profit distributed intragroup by Financial Services (down from €19 million).

Net liquid assets of Industrial Business thus slimmed down on balance by €698 million to €572 million.

The scheduled growth of the volume funded by Financial Services meant that its (negative) free cash flow swelled by €85 million from a red €340 million to an equally red €425 million. €417 million of this net cash outflow (up from €309 million) was attributable to an increase in receivables from customers under leases and in financed receivables as these, thanks to the MAN Group's sound liquidity position, were not placed on the market. On balance, net financial debt of Financial Services rose by €421 million, from €1,097 million to €1,518 million.

MAN Group funding

Current net liquid funds suffice to largely finance the MAN Group's operating activities. Debt-funded finances are ensured through a syndicated variable-rate credit facility of €2.0 billion granted by a consortium of 25 banks for a term up to December 2010. This credit facility was utilized neither as of December 31, 2006, nor as of year-end 2005. Another group-funding cornerstone 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.

On September 17, 2006, MAN AG signed an €11 billion credit facility agreement with a banking syndicate to fund the planned Scania acquisition. By December 31, 2006, a facility portion of €1,170 million was utilized at an annual interest rate of 4.078 percent to purchase Scania stock. After the January 23, 2007, withdrawal of the public offering, the unutilized balance of this facility expired.

MAN AG's capital stock amounts to an unchanged €376,422,400, divided into 147,040,000 no-par shares, thereof 140,974,350 shares of common, and 6,065,650 shares of nonvoting preferred, stock. For details of the privileges and obligations of each stock class, see Note (23)(a) to the consolidated financial statements.

Equity-based financing is 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.

In addition, the Executive Board is authorized to repurchase on or before November 18, 2007, MAN common and/or nonvoting preferred stock, this authority being capped at an aggregate 10 percent of the capital stock.

Asset and capital structure

The prior-year balance sheet comparatives were adjusted for the Printing Systems and Steel Trade data to enhance the analysis of MAN's asset and capital structure.

In a year-on-year comparison, total assets of Industrial Business soared €719 million to €13.4 billion. The main reason was the acquisition of Scania stock, as is on the one hand reflected in a €1.3 billion surge of investments which also includes the €96 million addition of the 35-percent stake in the new Roland investee.

	Industrial Business		Financial Services	
€ million	**2006**	**2005 *)**	**2006**	**2005**
Tangible and intangible assets	1,997	1,941	91	157
Investments	1,595	292	1	2
Assets leased out	1,590	1,619	805	789
Tax assets	717	501	5	1
Inventories	2,983	2,835	49	8
Trade receivables	2,324	2,203	663	452
Assets of discontinued operations	244	1,757	–	–
All other noncurrent and current assets	783	626	237	72
Financial funds	1,147	887	15	10
Total assets	**13,380**	**12,661**	**1,866**	**1,491**
Equity	3,643	2 893	136	132
Pension obligations	943	1,390	3	2
Financial liabilities	1,661	505	447	430
Intragroup finance	(1,086)	(677)	1,086	677
Accruals	1,507	1,502	8	26
Prepayments received	1,557	1,237	0	0
Tax liabilities	817	437	33	28
Trade payables	1,513	1,304	89	127
Liabilities of discontinued operations	95	1,373	–	–
All other noncurrent and current liabilities	2,730	2,697	64	69
Total capital	**13,380**	**12,661**	**1,866**	**1,491**

*) Prior-year data like-for-like

The business volume expansion not only drove up inventories (by €148 million) and trade receivables (by €121 million) but, on the liabilities side, also trade payables (up €209 million) and prepayments received (up €320 million). The €750 million equity surge is primarily ascribable to the high EAT for 2006 and the favorable effect of marking financial instruments to the market. The €447 million shrinkage of pension obligations was largely caused by the additional €363 million endowment for the pension plans.

The financial liabilities of Industrial Business hiked up from €505 million a year ago to €1,661 million, the consequence of the credit-funded Scania stock purchase. Intragroup funding by Financial Services from Industrial Business's liquid assets rose €413 million to €1,086 million.

Following the great leap of investments, Industrial Business's cover ratio of fixed assets (tangible/intangible assets, investments) to equity receded by 14 percentage points from 116 to 102 percent, its equity ratio climbing from 23.1 to 27.2 percent. For the MAN Group as a whole, the fixed-asset cover and equity ratios came to 103 percent (down from 122) and 24.8 percent (up from 21.4), respectively.

Booming business meant that total assets of Financial Services jumped from €1.5 billion to €1.9 billion. Liabilities of €447 million are debt-funded, €1,086 million being refinanced through intragroup financial resources.

As of December 31, 2006, the MAN Group reported a net financial debt of €946 million, which contrasts with prior-year net liquid assets of €173 million. This 2006 net is the balance of cash & cash equivalents and securities of an aggregate €1,162 million (down from €1,191 million including securities) and financial liabilities of €2,108 million (up from €1,018 million).

Noncapitalized assets and off-balance financing instruments

Besides its capitalized assets, the Group also resorts to noncapitalizable assets, such as the brand MAN as a major incorporeal asset, plus patents from internal R&D and our services and sales networks for customers. For us, the associated expenses are investments in the future and safeguard our market success for the years ahead.

Off-balance financing instruments include certain secured and unsecured plant construction receivables which are sold to financial institutions by nonrecourse factoring.

Research and development

€ million	2006	2005
R&D expenditures	396	385
R&D expenditures by the manufacturing business areas (% of sales)	3.4	3.8
Internally funded R&D	297	293
Annual average R&D headcount	3,174	3,099

R&D expenditure by business area

€ million	2006	2005
Commercial Vehicles	215	211
Diesel Engines	119	116
Turbo Machinery	45	30
Industrial Services	3	9
Others	14	19
Total	**396**	**385**

Global trends in the direction of resources conservation, energy savings, and emissions abatement constitute the forces driving our R&D efforts. As a consequence we invest heavily in researching and developing product solutions that lead to a reduction in fuel consumption and emissions. Concurrently, we develop products that enable existing energy resources to be used less costly and more efficiently.

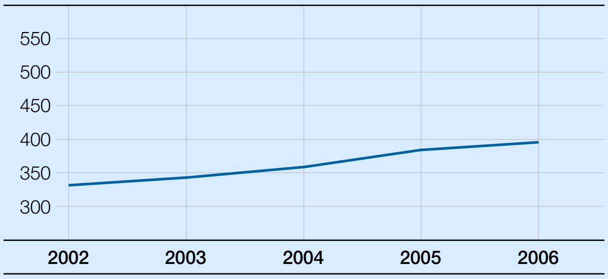
Given these considerations, one emphasis in R&D at Commercial Vehicles is the development of innovative and forward-looking engines running on natural gas, hydrogen and biofuels as well as on hybrid forms of propulsion.

Flexibly engineered power units were at the top of the agenda at Diesel Engines: new engines running on natural gas for the stationary power market and dual-fuel engines.

At Turbo Machinery, one of the R&D priorities is natural gas liquefaction (gas to liquid).

5-year R&D expenditure trend

€ million



Prior-year data like-for-like excluding Printing Systems and Steel Trade unit

The MAN Group keeps its expenses for improving production and services, for innovations and for securing the future at a high level. During the period, R&D expenditures edged up 3 percent to €396 million or 3.4 percent of sales at the manufacturing areas. The consistent rise in our R&D budget, which has grown by €64 million since 2002, has continued in 2006, too.

Altogether €297 million (or 75 percent of the total) of these expenditures was sourced from our own funds while €99 million was spent on contracted R&D work and publicly subsidized projects. Around 40 percent of the internally funded expenditures went toward basic research and the development of new products.

Altogether 3,174 employees (up from 3,099) worked on R&D during the period.

Capital outlays

€ million	2006	2005
for tangible assets	340	268
for intangible assets	106	108
for investments	1,214	28
Total	**1,660**	**404**
thereof Scania stock purchase	1,174	–
Outlays excl. Scania stock purchase	**486**	**404**
thereof in Germany	333	283
thereof abroad	153	121
Amortization/depreciation/ write-down*)	328	335
Investment ratio in % **)	148	121

*) excl. discontinued operations
**) excl. Scania stock purchase

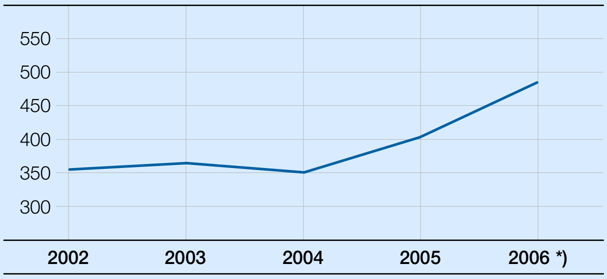
Capital outlays by business area

€ million	2006	2005
Commercial Vehicles	334	260
Diesel Engines	49	43
Turbo Machinery	53	13
Industrial Services	22	33
Others	1,202	55
Total	**1,660**	**404**

Capital outlays in fiscal 2006 amounted to €1,660 million (up from €404 million), including a sum of €1,174 million for acquiring Scania stock; excluding this, we spent €486 million (up from €404 million) on tangible and intangible assets and investments. The non-German share of our capital expenditures (excluding the Scania stock purchase) came to €153 million or one-third of the total.

5-year trend of capital outlays

€ million



*) not including purchase of Scania shares

Capital expenditures in 2006 focused on the ongoing modernization of our plants in order to improve their productivity. Other items of expenditure were capacity expansions as dictated by our growth strategy.

The biggest capex project is the construction of the new Polish truck assembly plant in Niepolomice near Kraków which consumed €50 million in 2006. Another €10 million went toward a joint venture with FORCE Motors in India. Both these projects will serve toward extending our presence in the high-growth markets of C&E Europe, Russia and Asia and honing our competitive edge for durable sharpness.

Sizable capital outlays were also made at Turbo Machinery for the acquisition of BVI's steam turbine business and capacity enlargements at a number of locations. Diesel Engines chiefly invested in production facilities at Augsburg.

Procurement

Cost of materials by business area		
€ million	**2006**	**2005**
Commercial Vehicles	4,763	4,144
Diesel Engines	900	746
Turbo Machinery	429	335
Industrial Services	972	861
Others	227	130
Consolidation	(204)	(214)
MAN Group	**7,087**	**6,002**

Cost of materials		
in % of sales	**2006**	**2005**
Commercial Vehicles	55	56
Diesel Engines	50	45
Turbo Machinery	47	48
Industrial Services	70	61
Others	48	35
MAN Group	**54**	**53**

The MAN Group's manufacturing companies operate on all the important procurement markets. The Group's cost of materials amounted to around €7.1 billion (up from €6.0 billion) or a good 50 percent of sales.

Since the Group is split into four core areas each with its own Purchasing, major shared procurements are coordinated from a central department. The requirements of the business areas are pooled in order to fortify the Group's purchasing power. Master agreements are negotiated with suppliers with a view to obtaining price advantages and securing supplies.

By restructuring our groupwide purchasing operations we consolidated our position on the input markets in 2006. The basic procurement volumes are covered by skeleton agreements. By repeatedly refining the material categories with the aid of lead-buyer concepts, requirements were pooled. In order to exploit international sourcing advantages, international procurement offices and buying alliances were established as part of our global sourcing strategy, especially in C&E Europe, China, and India.

MAN products are remarkable for their reliability, cost efficiency and innovative design. Such merits, in turn, hinge on a commensurate input on the part of suppliers. MAN Nutzfahrzeuge acknowledges such input and confers annually its Trucknology® Supplier Award on up to 10 vendors for their outstanding performance and hence the success of our products.

Employees

Employees (permanent workforce) at Dec. 31	2006	2005
Germany	29,399	28,978
Abroad	20,891	20,183
Total	**50,290**	**49,161**
Abroad in %	42	41
Consolidation group change	(417)	(472)

Employees by business area at Dec. 31	2006	2005
Commercial Vehicles	34,040	33,368
Diesel Engines	6,408	6,423
Turbo Machinery	3,257	2,476
Industrial Services	4,290	4,563
Other industrial investees	1,575	1,938
Financial Services	154	122
MAN Shared Services	346	18
Corporate Center	220	253
MAN Group	**50,290**	**49,161**

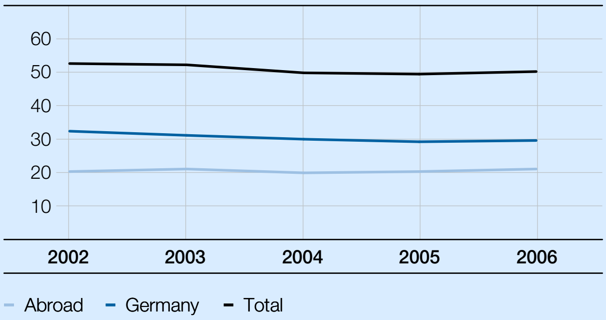
Workforce up

At December 31, 2006, the MAN Group employed a workforce of 50,290, up 1,129 versus the start of the year. In 2006 we recorded an aggregate gain of 2.3 percent in workforce: an extra 3.1-percentage points from the hiring of additional employees and an 0.8-percentage point loss from the disposal of marginal businesses. In Germany the increase was 1.5 percent, abroad 3.5 percent. Of the total workforce, 42 percent are employed outside Germany.

To additionally enhance employment flexibility to match the sharp rise in production we also raised the number of loaned employees within the MAN Group who at year-end totaled 3,425 (up from 2,251). The number of temporary (limited-term) employment contracts had mounted by 19 percent to 2,887 as of December 31, 2006.

5-year headcount trend

1,000 employees



Pension system

In 2006 we completed the pension plan reconfiguration for the employees of our German subsidiaries by also redesigning the pension system for management. The pension system, groupwide substantially the same, is based on a defined contribution plan under which each employee's contributions are linked to annual pay. When going into retirement, employees receive the pension capital (including interest) that has accumulated through their interest-bearing contributions, rather than current pension payments. Officers and executives within the MAN Group have been offered a newly developed plan based on a capital sum. This plan provides that the postretirement capital sum paid out is linked to the performance of certain investment fund indexes.

In 2006, the MAN Group continued the coverage of its German pension obligations which it had begun in 2005 with an initial endowment of €350 million (excl. Printing Systems), by transferring under a Contractual Trust Agreement (CTA) another €310 million to MAN Pension Trust e.V. in order to fund the pension obligations to employees and retirees. Foreign subsidiaries transferred €53 million as special endowment to pension plans.

The strain on the Group's future cash flow will thus be eased to the extent that external capital resources fund postretirement benefits due. The CTA enables an investment strategy that mirrors the companies' obligations and workforce age pattern.

Sustainability management

For us, sustainability stands for the safeguarding of economic interests with consideration for ecological and social needs. In 2006, we again pressed ahead with numerous sustainability programs addressing a variety of challenges.

Knowledge management is a key ingredient of our sustainability strategy and, with a view to achieving a much more efficient information management system, we restructured the processes by which knowledge is shared and transferred. Group know-how is now organized according to the strategy fields MPPE (Market-Product-Process-Employee). Management examines strategy subjects which are then assigned to a strategy field through control circuits. A team of experts analyzes the subjects to arrive at a result that is presented to a meeting of members from all the strategy field groups. The interlinking of these strategy fields ensures that the know-how generated is then routed to all the corporate processes affected.

With our products we have also 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 common-rail engines installed in the TGL have been modified for compliance with the coming Euro 5 emission limits and are already being marketed. With their low fuel and lubricant consumption, the new engines rank among the most eco-friendly and economical commercial vehicle engines on the market.

Our natural gas engines, which are particularly suited for bus propulsion, are setting standards. MAN natural gas engines already comply with Euro 5 only valid as from 2008 and the even tougher EEV standard (Enhanced Environmentally friendly 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 (in future) biomass into alternative fuels (GTL or BTL). Given the expected limits in mineral oil availability, this is a market that has already evolved into a new stage of development. It is planned to expand the production of synthetically produced alternative fuels.

These are just some examples of our unrelenting efforts to achieve improvements in environmental protection. Our Sustainability Report 2005/06, which can be ordered or downloaded at www.man.eu, contains detailed information on our activities and all the relevant figures (next update 2007).

In addition to product optimization and refinement, the fields of materials consumption and resources (e.g., energy consumption) 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.

The business areas

Commercial Vehicles

In a commercial vehicle market that was generally expanding, the MAN Nutzfahrzeuge Group successfully pursued its growth strategy. At €10.1 billion, order intake topped the high year-earlier level by 7 percent. Excluding the megaorder placed by the British Ministry of Defence in 2005 and worth €1.4 billion, the rise in new orders was as high as 22 percent. The €670 million operating profit (up by €201 million) was for the second year running an all-time high in the history of Commercial Vehicles. For 2007, too, the prospects are bright and we expect further increases in sales and operating profit.

MAN Nutzfahrzeuge Group		
€ million	2006	2005
Order intake excl. MoD*)	9,841	8,076
Order intake	10,103	9,434
Sales	8,685	7,377
Number of vehicles sold	87,160	74,218
Operating profit	670	469
Operating profit incl. Financial Services	698	497
Headcount at Dec. 31	34,040	33,368
ROS (%)	7.7	6.4
ROS incl. Financial Services (%)	8.0	6.7
ROCE (%)	26.8	17.9

*) Ministry of Defence contract: €1,358 million in 2005, €262 million in 2006

MAN Nutzfahrzeuge by unit		
€ million	2006	2005
Order intake by Trucks	8,604	8,043
Order intake by Trucks excl. MoD	8,342	6,685
Order intake by Buses	1,499	1,391
Sales by Trucks	7,212	6,209
Sales by Buses	1,473	1,168
Number of trucks sold	79,822	68,209
Number of buses sold	7,338	6,009
Operating profit of Trucks	632	433
Operating profit of Buses	38	36

Economic environment

The European commercial vehicle market advanced by 7.2 percent in 2006. Shipments by the MAN Nutzfahrzeuge Group expanded even 17 percent, the comparatively higher increase being due to this business area's international growth strategy leading, in particular, to surging shipments outside Europe. Inside Europe the market share for trucks over 6 t mounted 0.2 percent to 15.9 percent and for buses, from 12.8 to 15.4 percent.

Higher oil and commodity prices may be taking their toll on the commercial vehicle sector yet globalization trends are still allowing it to outpace the international economy and hence, we are looking ahead optimistically.

Business trend

Adjusted for MoD, order intake in fiscal 2006 by MAN Nutzfahrzeuge rose by 22 percent to €9.8 billion. Trucks mounted 25 percent, from €6.7 billion in 2005 to €8.3 billion in 2006. The number of trucks ordered climbed 28 percent from 68,676 to 88,069.

Orders booked by Buses jumped 8 percent, from €1.4 billion to €1.5 billion, in terms of units a 2-percent gain to 7,216 units.

Sales by Commercial Vehicles rose 18 percent to €8.7 billion of which Trucks accounted for €7.2 billion (up 16 percent). We shipped out 79,822 vehicles, up 11,613 or 17 percent. At €1.5 billion, sales by Buses surged 26 percent versus 2005. Shipments at Buses advanced 22 percent to 7,338 units.

Q3/2006 saw a follow-up order of €262 million placed by the British Ministry of Defence (MoD) comprising another 2,051 heavy-duty vehicles which makes a total of 7,216 vehicles worth altogether €1,620 million for this mega-contract.

Year-end order backlog at MAN Nutzfahrzeuge added up to €4.2 billion (up 31 percent from €3.2 billion). Excluding MoD, the total climbed 39 percent to €2.6 billion. Our truck plants in both Germany and abroad had ample workload.

Operating profit
The €670 million operating profit posted by the MAN Nutzfahrzeuge Group was for the second year running an all-time high and, compared with the previous period, a rise of €201 million or 43 percent. ROS climbed from 6.4 to 7.7 percent, ROCE by 8.9 percentage points to 26.8 percent.

The appreciable operating profit improvements were the outcome of greater production volumes, substantial productivity hikes, and higher margins. With a sales gain of 16 percent, Trucks boosted its operating profit by €199 million or 46 percent to €632 million. Besides ample workloads, the chief factors were productivity progress and higher margins. The operating profit at Buses amounted to €38 million (up by €2 million or 6 percent). If Buses is to achieve its benchmarks, further efficiency upgrades will have to take effect.

Together with MAN Finance's operating profit (which since the disposal of Printing Systems has virtually financed commercial vehicles only and will hence be assigned to MAN Nutzfahrzeuge starting from 2007), Commercial Vehicles' operating profit came to €698 million (up from €497 million). ROS (incl. Financial Services) mounted from 6.7 to 8.0 percent.

Employees
At December 31, 2006, the MAN Nutzfahrzeuge Group employed a workforce of 34,040, of which 19,999 in Germany (up from 19,941) and 14,041 (up from 13,427) abroad. Loaned employees rose from a total 1,106 in 2005 to 2,012 (up 82 percent).

The number of apprentices at December 31, 2006, was 2,101 (down from 2,150 a year before), equivalent to 5.8 percent of the workforce (down from 6.2).

Research and development, capital expenditures
R&D expenditures added up to €215 million (up from €211 million) or 2.5 percent (down from 2.8) of sales. The R&D departments employed 1,737 persons worldwide (up from 1,709).

We intend to extend our technology lead and set further benchmarks in terms of quality, safety, and respect for the environment. Numerous trailblazing technologies we are developing for the transportation of passengers and goods relate to emission standards and alternative types of propulsion. Since the introduction of the Euro 4 norm in October 2006, we have been the sole commercial vehicle manufacturer to offer all engines up to 480 hp DIN with the zero-additive and maintenance-free MAN PM-KAT® EGR system.

The new Euro 4 emission standard also impacted on Buses. We are one of the few bus builders to supply all its buses (the two brands MAN and NEOPLAN) with zero-additive exhaust gas systems featuring MAN PM-KAT®. At the IAA motor show we presented MAN's first Lion's City bus which satisfies the EEV standard whose requirements are even tougher than those of Euro 5. Moreover, our MAN hydrogen buses, subsidized by the EU HyFLEET:CUTE project, more than comply with all known emission standards. In the bus and coach market we are presently the leading supplier of natural gas drive systems and in the market for city buses and trucks operating on local distribution services, we are focusing our efforts on developing a hybrid drive system with brake-energy recovery.

Safety is another of our preoccupations. We have meanwhile finalized the predevelopment work on the Ultrasonic Guard System engineered to reduce serious accidents when turning off at crossings. We have also taken on a leadership role in Germany's AKTIV initiative (Adaptive and Cooperative Technologies for Intelligent Traffic). This concerns new driver-assistance systems, information technologies and other solutions for efficient traffic management and communication.

At €334 million, capital expenditures were 28 percent higher than in 2005. A major spending item (€50 million As from mid-2007, annually some 15,000 heavy-duty trucks will roll off the assembly line in single-shift operation.

Another expenditure location was Munich. With the aid of expenditure projects completed in 2006 and those earmarked for 2007, the Munich site is being systematically expanded as MAN's main production plant. The new corporate marketing administration building in Munich was also completed and occupied in the course of the year.

Developments ahead
MAN Nutzfahrzeuge is pursuing an international growth strategy with the aim of shipping out annually some 100,000 trucks and 10,000 buses by 2010. These are vehicles customized to match the needs of local markets in which they serve as premium products reflecting MAN brand quality. Our TGA, TGM and TGL truck series plus the bus lineup constitute a highly modern and dependable program. 2007 will see the addition of the new Cargo Line truck series produced in India and tailored to the requirements of Asian and African markets. Together with TGA WorldWide, chiefly for C&E Europe, they address the in 2006) was the commencement of construction of the new Polish assembly plant in Niepolomice near Kraków. strategic growth markets outside Europe. In the case of the two engine series, D08 and D20 plus the new D26 (all common rail) we have the market's most modern truck and bus engine ranges.

With the economy generally making good progress at present, business prospects are seen to be bright.
As to 2007, we again aim to outgrow the market and to this end, we are looking to further improve productivity, after-sales service, and our structures as such. Besides Europe, MAN Nutzfahrzeuge's international growth strategy for Trucks and Buses is directed at tapping market potentials in C&E Europe, the CIS, Asia, Mexico, and Africa. In order to consolidate international expansion and thus secure long-term profitability, we will commence production in 2007 at our third Polish plant in Niepolomice near Kraków, and truck manufacture at our Indian joint venture.

In terms of ROS we will also press ahead in 2007. With sales again rising and thanks to the continuation of the cost-cutting programs already initiated we aim to further boost ROS, the operating profit to again rise commensurately.

Diesel Engines

Fiscal 2006 again saw huge demand for diesel engines. In terms of both order intake and sales, the MAN Diesel Group succeeded in once more clearly surpassing the already high year-earlier figures. Especially thanks to the heavy workload at Four-Stroke Engines, the operating profit improved to €229 million, equivalent to nearly twice the 2005 magnitude.

MAN Diesel Group		
€ million	2006	2005
Order intake	2,619	2,203
Sales	1,802	1,666
Operating profit	229	117
Headcount at Dec. 31	6,408	6,423
ROS (%)	12.7	7.1
ROCE (%)	46.6	22.8

MAN Diesel by unit		
€ million	2006	2005
Order intake by Two-Stroke	659	733
Order intake by Four-Stroke	1,960	1,470
Sales by Two-Stroke	576	503
Sales by Four-Stroke	1,226	1,163
Operating profit of Two-Stroke	106	72
Operating profit of Four-Stroke	123	45

Economic environment

Despite higher fuel prices and extended lead times, demand for new ships was still very strong, in particular for crude oil tankers, container vessels, and bulk carriers. Capacities at most Asian and European shipyards are booked up until 2009.

Business trend

With incoming orders worth €2.6 billion, Diesel Engines again outgrew an in itself very high year-earlier volume. Sales inched up from €1.7 billion to €1.8 billion, order backlog reached €2.8 billion (up from €2.0 billion), enough to keep the production plants busy until deep into 2008.

MAN Diesel holds a share of over 80 percent in the market for two-stroke marine engines. Its status as leading-edge developer of large, slow-speed diesel engines was again solidified. With altogether 250 units sold, the electronically controlled ME series has meantime firmly established itself in the marketplace. New orders booked by our licensees are filling production capacities until 2009/2010. In fact, a number are creating additional capacities to address future demand.

The Four-Stroke unit also registered a rush of incoming orders. A contract for altogether 32 L27/38 engines to be installed into eight anchor handling tugs is our biggest ever individual order for small propulsion systems. Likewise successful was business in large four-stroke engines built into midsize container ships, oil and special tankers, RoRo ferries, and for offshore applications. The total number of marine engines sold was once more well in excess of the year-earlier record.

In the case of stationary four-stroke engines for diesel power plants, order intake was again much higher, enabling us to re-consolidate our position in the marketplace. Regional focal points were the Middle East, the Caribbean, and Latin America.

Operating profit

In 2006, the MAN Diesel Group's operating profit almost doubled from €117 million to €229 million. ROS reached 12.7 percent (up from 7.1 percent), hence easily in excess of the 9.0-percent benchmark. This sustained profit improvement is due to a variety of factors: very busy production plants, higher margins for new engine business, and the successful restructuring of MAN Diesel Ltd., Stockport, UK. This latter is now solely a servicing operation, its previous production of 28/33D engines having been moved to Augsburg. With profit surging and the somewhat lower capital employed, ROCE leaped from 22.8 to 46.6 percent.

Employees
The MAN Diesel Group employed a workforce of 6,408 (down from 6,423) at December 31, 2006. Augsburg, in particular, hired additional manpower while the headcount at Stockport again shrank due to this location's concentration on after-sales service. In 2006 we trained 402 apprentices (down from 410). In order to work off the towering order backlog and to respond flexibly to workload fluctuations we again deployed a variety of instruments such as loaned and temporary (limited-term) labor and working hour accounts (flexitime).

Research and development, capital expenditures
Our R&D efforts focus on customer needs for maximum dependability, rising performance coupled with reduced fuel consumption, and compliance with present and anticipated emission standards. Another emphasis is the development of advanced types of engine. At Two-Stroke, priorities encompassed the revamping of proven models with bores of 80 and 90 cm and the introduction of models with new electronically controlled fuel injection and smaller piston diameters (35, 40, and 50 cm). At Four-Stroke, the emphasis was on the closing development phase for the two new gas and one new common-rail diesel models. Concurrently, the performance-upgraded 48/60B underwent field testing in its common-rail version. In the case of the smaller 4-stroke models, the emphasis was on performance enhancement.

Expenditures once more centered on improving production efficiency. As in the preceding years, large amounts were spent on the Augsburg facility for engine and turbocharger manufacture.

The remaining 33.4-percent stake in the French diesel engine builder S.E.M.T. Pielstick was acquired during the period and the company renamed MAN Diesel S.A. The preconditions now exist for us to create a European production network which we will expand and optimize over the years to come in order to make our production capacities more flexible.

Developments ahead
The huge order backlog at the end of 2006 promises a further surge in sales for 2007. Last year had seen an unexpected torrent of orders in global shipbuilding and for 2007, we are bracing ourselves for a slight subsidence. Thanks to our solid business position and supported by projects aimed at a further integration of all the locations, we predict another improvement in operating profit with ROS once more at its very high level of 2006.

Having transformed MAN B&W Diesel AG into a European corporation (Societas Europaea or S.E.), we will take steps to accelerate the integration of the locations and hence further sharpen our international competitiveness. In doing so, we will concentrate our marine business even more closely on systems competence including the use of turbochargers. Especially promising prospects are perceived in the offshore and naval sectors. Power plant operations will be stepped up by a stronger lineup of gas and biofuel complexes and turnkey solutions marketed in unison with MAN Ferrostaal. Another focal point ahead of us is the after-sales services business being marketed and expanded under the proprietary name of MAN Diesel PrimeServ.

Turbo Machinery

Fiscal 2006 was a period in which MAN TURBO showed another surge in growth, with order intake at €1.5 billion almost doubling. Operating profit improved to €71 million and ROS advanced from 6.2 to 7.8 percent. The takeover of the steam turbine business of Blohm + Voss, Hamburg, has extended our product lineup to include the 2–20 MW range.

MAN TURBO Group		
€ million	**2006**	**2005**
Order intake	1,498	850
Sales	908	694
Operating profit	71	43
Headcount at Dec. 31	3,257	2,476
ROS (%)	7.8	6.2
ROCE (%)	30.5	18.5

Economic environment
Vigorous demand for turbomachines continued in all our areas of application, specifically on the part of the refinery, oil and gas industries and for air separators required in gas-to-liquid projects.

Business trend
The huge increase in order intake to €1.5 billion is the outcome of organic growth in the manufacture and after-sales service business plus the acquisition of BVI's steam turbine business and the strategic integration of MAN DWE. Our biggest contract and the largest ever in the company's history, is for eight air separation lines and twelve DWE reactors to be supplied to the world's biggest GTL complex Shell Pearl in Qatar.

The sale of generator and drive system steam turbines from the traditional product range more than doubled. Shipments of generator steam turbines from the newly acquired business boosted sales volume figures, too. These are applications focusing on turbine uses in biomass energy generation plants.

New service business climbed 20 percent, helped by some sizeable conversion contracts. Also contributing to the order intake increase were both compressor contracts and the steam and gas turbine business.

Due to booked-up capacities and hence the extended lead times, sales at €908 million (up 31 percent) failed to keep pace with order intake. The rush of incoming orders propelled year-end order backlog to €1.3 billion, as much as 116 percent above the prior-year €720 million. Bulging order books will keep all the production plants busy beyond 2007.

Operating profit
The operating profit jumped from €43 million to €71 million, the increase being chiefly the outcome of improved margins for manufactured products and high plant capacity utilization. Other contributory factors were the takeover of BVI's steam turbine business and the addition of MAN DWE. ROS improved from 6.2 to 7.8 percent. With again reduced capital employed, ROCE vaulted from 18.5 to 30.5 percent.

Employees
In 2006, the workforce climbed by 781, of which 235 persons were attributable to the takeover of the Hamburg-based steam turbine location and 420 to the reassignment of DWE to the MAN TURBO Group. At December 31, 2006, MAN TURBO employed 2,352 people in Germany and another 905 at international locations. During the period, 177 young employees were trained in technical and engineering skills. Initial and advanced courses—specifically on technical subjects—were again stepped up during the period. Another emphasis was the cultivation of relationships with higher-education establishments in order to tap a ready influx of young talent for future needs.

Research and development, capital expenditures

Demand for natural gas liquefaction technology (gas-to-liquid, or GTL) is booming. Since the plant capacities planned by customers easily exceed those of complexes built hitherto, the necessary TURBO products at both the steam turbine and turbo compressor ends require on our part heavy R&D outlays. MAN TURBO's ambitious development program indicates that we are able to expand our solid position in this market.

Increasingly important in the oil and gas sectors is the tapping of until now less used oil and gas resources in order to better exploit existing deposits. To address these challenges, MAN TURBO is developing its high-pressure compressors developing up to 1,000 bar as well as new underwater compressors. The position of worldwide market supremacy is being defended by ongoing further and new developments.

The expanded business volume requires additional expenditures at all group locations. Alongside the normal amounts to replace existing assets, the year under review saw, in particular, spending on new machinery for the purpose of extending current capacities. Additionally, we began enlarging the production shops for enhancing testing capacities at Oberhausen and Zurich and the construction of a new heavy-load production shop in Deggendorf.

Developments ahead

The continued congenial market is expected to see repeated buoyant demand for our products for virtually all applications and in all regions in 2007. We will strengthen our after-sales service efforts through additional service shops. Our aim is to increase the amount of servicing work we perform on our own machine population. Additional goals are conversion and revamping measures as well as raising the share of servicing contracts.

The program launched in 2006 for improving competitiveness and growth will spread out over the years ahead and include the setting-up of a manufacturing shop in China, raising production capacities at all locations and further expanding the existing capacities for assembling and testing new plant. In the years to come, the MAN TURBO Group will almost double expenditures for this purpose. Versus the start of 2007, the workforce will rise by around 580, including 200 at the new location in China and another 380 at the European technology sites.

These expansion plans are necessary because of the tall order backlog and the plans mapped out for growing the group. They will also allow us to shorten our lead times for new plant. Sales will accordingly mount more steeply in 2007, which, given the generally rising profit contributions, will help promote operating profit. Process improvements, cost-reduction measures and further engineering standardization already in place and still to be continued, will over the coming years lead to another proportionately higher advance in operating profit.

Industrial Services

Industrial Services had a very good year; order intake rose from €1.7 billion to €2.0 billion; sales at €1.4 billion were at the year-earlier level. MAN Ferrostaal's operating profit jumped from €64 million to €119 million. ROS improved to 8.6 percent, ROCE to 31.2 percent.

MAN Ferrostaal

€ million	2006	2005
Order intake	1,982	1,745
Sales	1,379	1,414
Operating profit	119	64
Headcount at Dec. 31	4,290	4,563
ROS (%)	8,6	4,5
ROCE (%)	31.2	10.9

MAN Ferrostaal by unit

€ million	2006	2005
Order intake Projects	1,418	1,125
Order intake Services	564	620
Sales Projects	790	807
Sales Services	589	607

Business trend
During the period, MAN Ferrostaal sharpened its profile as industrial services provider by concentrating more closely on core business. Steps were taken to restructure our steel trade business and contribute it to a third-party partnership aimed at achieving an improved market status for Steel Trade and help shape the consolidation of the steel sector from a position of strength. From the figures quoted in this management report and the consolidated financial statements, Steel Trade has retroactively been eliminated as discontinued operation according to IFRS 5. For details refer to Note (7) to the consolidated financial statements. MAN TAKRAF and a number of marginal operations were sold off in 2006. Since these, however, fail to meet the criteria of IFRS 5, the year-earlier figures have not needed any adjustment.

MAN Ferrostaal's plant construction business made solid progress in 2006. Order intake by Projects mounted from €1,125 million to €1,418 million. Major customers included the oil and gas and the petrochemical sectors in both Latin America and the Near and Middle East. Steep commodity prices prompted heavy capital expenditures in these regions.

Methanol Holdings Trinidad Limited awarded us the contract for the turnkey construction of a petrochemical complex in Trinidad comprising seven subplants for making melamine, urea ammonium nitrate, and ammonia (AUM). This contract is the country's biggest ever individual petrochemical project, one that we developed jointly with the customer and largely contributed to the financing arrangements.

The Projects unit's business in 2006 generated sales of €790 million (down from €807 million). Work progressed according to plan on the turnkey expansion of a power plant in Venezuela and the construction of a methanol complex in Oman. The construction of a cellulose plant in Estonia and a delayed-type coker in Chile substantially went on as scheduled.

MAN Ferrostaal's international service business slipped slightly in 2006. Order intake added up to €564 million and due to receding business in special-purpose machinery, fell short of the high prior-year €620 million. As a consequence, sales by Services inched down from €607 million to €589 million.

Operating profit
MAN Ferrostaal's operating profit mushroomed from €64 million to €119 million, mainly due to much improved profitability by Projects. Services' operating profit was again stable. ROS and ROCE once more rose: the former from 4.5 to 8.6 percent, the latter from 10.9 to 31.2 percent.

Employees
At year-end 2006, the workforce had shrunk from 4,563 (start of 2006) to 4,290. The decline is chiefly due to the concentration on core business and the related divestment of operations by Projects. Concurrently, over 400 employees were hired in the core businesses of industrial plant, machinery, automotive services, and for the purpose of strengthening the international sales and service network.

Developments ahead
In 2006, the business area expanded its role as MAN sales and services platform and as such is increasingly providing industrial services to other MAN areas.

We stepped up the sales and services cooperation with MAN Nutzfahrzeuge in Mexico in the market for buses and starting from 2007, will team up with the local company in the truck market. At the same time, the groundwork has been laid for spreading this style of cooperation to other countries in Latin America and Southeast Asia.

Together with MAN Diesel, we have been pursuing our first joint projects in the construction of stationary diesel power plants. Such cooperation merges the strengths of MAN Ferrostaal—project development, project management and financing arrangements—with the technology proficiency and product and market know-how of MAN Diesel. Similar intragroup cooperation is envisaged with MAN TURBO in the construction of compressor stations in Central Asia and the Near and Middle East.

The setting-up of international MAN Houses is proceeding successfully and according to plan. The MAN House in Dubai started work in July 2006, those in Tehran and Beijing are in preparation.

The Projects unit's operations will press ahead with business in the petrochemical, oil and gas, renewable energy and power sectors. In doing so, we are directing our attention to the focal points of energy and fuels. We expect both market segments to show high growth rates in the years ahead—specifically in those regions in which MAN Ferrostaal has been traditionally strongly represented. Additionally, we are enhancing our success prospects by continuously strengthening our project development efforts.

Given the current project inquiry situation, we expect 2007 to see a strong inflow of orders. However, the volume will be below that of 2006 which was marked by the exceptionally high AUM contract. Sales and operating profit are predicted to stay as strong as in 2006.

RENK

RENK Group		
€ million	**2006**	**2005**
Order intake	417	314
Sales	356	307
Operating profit	38	29
Headcount at Dec. 31	1,575	1,504
ROS (%)	10.5	9.5
ROCE (%)	28.9	26.4

RENK, a foremost propulsion systems supplier in which MAN holds a 76-percent stake, succeeded in sharply upgrading its already high prior-year order intake, sales, and operating profit.

The remarkable 33-percent advance in order intake to a new record high of €417 million is chiefly due to Large-Gear Units and its present focus on the maritime market in which the company proved highly successful in all subsectors such as LNG tankers and naval vessels.

Thanks to 16 percent higher sales (up to €356 million) and ongoing efficiency enhancements, the operating profit advanced from €29 million to €38 million. At 10.5 percent (up from 9.5), ROS was once more an outstanding achievement.

Given the tall order backlog and Large-Gear Units' production plants working to the limits of their capacity up to late 2008, we predict for 2007 further moderate growth in sales and operating profit.

MAN Finance

MAN Finance Group		
€ million	**2006**	**2005**
Operations financing volume	1,982	1,672
Operating profit	28	28
Headcount at Dec. 31	154	122
Pretax return on equity (ROE) (%)	19.5	20.0

The MAN Finance Group (MFI) again emphasized its role as in-house financial services provider in 2006. The operations financing volume was lifted to €2.0 billion through both the established national companies and those newly set up in the past two years in Spain, Italy, Turkey, and France.

The operating profit remained steady at €28 million. Positive factors were improved credit standing on the part of customers and a higher financing volume, negative the start-up of the new companies. With business branching out and the formation of the newcomers, the workforce mounted from 122 to 154.

As to 2007, we are looking to an expansion in business operations. A broader product range and even closer POS customer relations will result in a further share of in-house financing deals. Growing shipments to the core markets of MAN Nutzfahrzeuge will ensure a portfolio surge.

Following the disposal of Printing Systems, MAN Finance confines its efforts almost exclusively to providing Commercial Vehicles customers with financing solutions. Consequently, this group will be assigned to the Commercial Vehicles business area.

Separate financial statements of MAN AG

Prepared in accordance with German Commercial Code ("HGB") provisions, MAN AG's separate financial statements are summarized below. The full financial statements (in German) are available from MAN AG or downloadable from our website: www.man.eu

Results of operations

€ million	2006	2005
Net investment income	639	310
Remaining pretax P/L, net	(136)	(43)
EBT	**503**	**267**
Income taxes	(169)	2
Net income	**334**	**269**
Transfer to reserves retained from earnings	(40)	(70)
Net earnings	**294**	**199**

MAN AG's EBT soared in fiscal 2006 by €236 million to €503 million, substantially thanks to the surging investment income which more than doubled to €639 million (from €310 million a year ago) in the wake of divestments and the greatly booming operating business areas. The remaining pretax loss is the net balance of general administrative expenses, net interest income and other income and expenses. The €171 million rise in income tax expenses is largely ascribable to those payable for prior periods.

After transferring €40 million to the reserves retained from earnings, MAN AG reports net earnings of €294 million. The Company's Executive and Supervisory Boards will propose to the annual stockholders' meeting on May 10, 2007, to distribute per share a cash dividend of €1.50 (up from €1.35) plus a €0.50 bonus.

Asset and capital structure, financial position

€ million	2006	2005
Fixed assets	2,878	1,435
Current assets	2,983	2,638
Total assets	**5,861**	**4,073**
Stockholders' equity	2,013	1,877
Financial liabilities	3,208	1,892
All other liabilities and accruals	640	304
Total capital	**5,861**	**4,073**

Most fixed assets comprise investments. The surge reflects the Scania stock purchase and the addition of the 35-percent stake in Roland Holding GmbH, Munich.

The Company's current assets mainly comprise the intragroup finance receivables and the cash and cash equivalents which originate from MAN AG's central group financing system, as do the financial liabilities which have been incurred by MAN AG to centrally finance the Group, their rise to €3,208 million chiefly resulting from funding the Scania stock purchase.

Additional information

The rules governing the appointment and removal of MAN AG's Executive Board members as well as the amendment of the bylaws conform with the law.

The principles of the compensation system for Executive and Supervisory Board members are described in the Board Compensation Report, an integral part of the management report for the purposes of Art. 315 HGB. For the itemized breakdown of each board member's compensation, see Notes (33) and (34) to the consolidated financial statements.

At December 31, 2006, MAN AG's workforce numbered 204 (down from 235).

Risk report and prospects

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 addition to MAN's 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.

To identify any nascent trends jeopardizing the Group's survival and also to perceive opportunities early on, we deploy a repertoire of interlocking risk management and control systems at the head of which are strategic corporate planning, internal reporting, and the risk management system itself. Whereas strategic planning is a mechanism to help us assess well in advance potential long-term risks and hence make the necessary decisions, the risk management system is an inherent and important component of our internal reporting processes.

Because of the corporate structure, the risk management system is locally organized and regularly adapted to changes, internal and external. The groupwide risk management manual constitutes the standard reference work for the system as installed in the MAN Group and as such contains binding rules for identifying, recording, analyzing, assessing, controlling and monitoring any significant risks to which MAN is exposed. Its principles and policies ensure groupwide common understanding of risk management. Risks and rewards are identified and quantified quarterly and at review meetings attended by the Executive Board and Corporate Controlling discussed and evaluated. Where necessary, adequate action is initiated. The Supervisory Board is periodically briefed on the MAN Group's risk position.

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 evaluation parameters 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 that risks are adequately subdivided into four categories commensurate with the business area's size.

It is up to each business area's management to make sure that the group companies are integrated into the risk management system so that within the areas risk management is practiced according to our principles. Throughout the business areas and at the level of MAN AG we have installed risk boards authorized to exercise control and monitoring functions within the MAN Group. These are staffed by representatives from financial, engineering, and legal departments plus the operating units. The job of the risk boards is to identify and assess in their respective areas hitherto unidentified risks as well as to fine-tune and follow up on any risk-control measures and mechanisms.

Internal Auditing and the statutory auditors are responsible for reviewing the workability of the MAN Group's risk management system and in the light of these obligations Internal Auditing examined once again in 2006 the internal auditing and risk management systems of the Group. No major weaknesses were identified. The proposed improvements were duly implemented.

Risks and rewards

The following comments concern the significant risk and reward areas that might severely impinge on the asset and capital structure, financial position, or results of operations position. In line with the organization of the MAN Group's risk management system, they are broken down into market, product, process, human resources, and finances. Our risk management tools classify all known significant risks completely within these categories.

Market
The global economic situation as outlined does not from today's vantage point reveal any significant risks for the MAN Group. For fiscal 2007, we are predicting a congenial climate in the relevant markets and hence sustained demand for our products, with opportunities for a continued sound and solid business trend. Political, legal, societal and financial parameters are scrutinized with care and regularity for assessment so that any identified risks and rewards may be reflected in our strategic and operating decisions.

With its commercial vehicles and diesel engines, the MAN Group generates around 80 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 in the core markets of Europe as well as in C&E Europe, the CIS, 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 role of MAN Ferrostaal's international network as a service platform for MAN products. A case in point: an alliance with MAN Diesel to build turnkey stationary diesel power plants. Additionally, for bundling our groupwide marketing efforts we have established MAN Houses in several sales regions at which all the business areas act in concert.

The MAN Group's chief exogenous risks are economic swings and the related market volatility coupled with demand fluctuations and price pressure in the affected markets. With a rolling analysis of the economic situation and the respective sales markets and through commensurate production flexibility we attempt to realign at an early stage the MAN Group's operations to possible changes and hence identify market opportunities well in advance besides counteracting any risk of appreciable profit erosion.

Another potential threat to earnings by the MAN Group's manufacturing areas is the still exorbitant energy and commodity market prices. 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 present opportunities: 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 investment projects.

The permanent and ever fiercer global competition in the capital goods markets is basically impacting on our results of operations in the form of price pressure. The MAN Group addresses these risks by sweeping cost-reduction programs, especially in manufacturing, administration, marketing, and purchasing. Risks may especially surface if the targeted cost reductions fail to or only partly materialize. The opportunities opened up by globalization are harnessed by such measures as the new production plants in India or Poland which allow us easier access to local markets.

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 outlay by the manufacturing areas has ranged around 4.0 percent of sales. Risks may arise if newly developed products fail to generate the budgeted revenue.

Order-related risks emanate in particular from buyback obligations and financing guaranties. Buyback obligations at Commercial Vehicles pose the risk that the future cash inflow from the sale of used vehicles shrinks significantly. Financing guaranties are part of the Industrial Services business model and cover a wide array of obligations under funding-related bonds or guaranties. These, however, are often covered by third-party guaranties or, where in the form of downpayment guaranties, by prepayments received from customers. By meticulously scrutinizing the standing before and after furnishing a guaranty or bond, we have to date been able to keep defaults at a minimum.

Processes
The repeated honing of our business processes and procedures offers a wide variety of opportunities for strengthening market position and profitability. Commercial Vehicles and Diesel Engines have launched several initiatives aimed at such targets as a further improvement in logistics and production cycles and sequences, delivery punctuality, and reduced product nonconformities. The same aim is pursued by a consolidation of the European Commercial Vehicle marketing and logistics organization for faster customer contract processing and, at the same, time, a reduction in capital employed.

MAN TURBO intensified the rollout of a wide range of programs to upgrade the entire output process and supply chain management, in an effort to considerably pare costs.

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 contractual conditions and/or miscosting. We address these risks through comprehensive project and contract controlling. MAN Ferrostaal, for instance, deploys a special instrument kit to ensure a systematic and comprehensive risk management system right from the bidding phase. This also involves powerful simulation techniques. Megaprojects are additionally scrutinized by MAN's Corporate Controlling and submitted to MAN AG's Executive Board for approval.

The services business, too, relies on suppliers to a substantial degree. Risks arise from upstream suppliers making poor deliveries or, due to bottlenecks, delivering late or not at all.

In its essential business operations the MAN Group is heavily reliant on well-functioning and secure IT systems. As a consequence we spun off in fiscal 2006 major parts of the IT operations into a separate company, MAN IT Services GmbH, for the purpose of groupwide IT harmonization and dependability. Such a setup offers opportunities, on the one hand, for re-improving processes and making them more efficient. The downside is that errors and unauthorized action harbor risks possibly leading to IT system failures. Such potential IT threats are countered by precautionary measures laid out in the MAN Group's IT security guidelines.

Internal Auditing regularly reviews the extent to which the risk avoidance measures are efficiently implemented. The latest hardware and software ensure uninterrupted data availability and protection from unauthorized access. Modern data backup procedures abate any risk of total loss. Any potential Internet threat to the operability of our systems is combated by the latest and most efficient data security mechanisms.

Human resources
Highly skilled specialists and managerial staff are essential to technology leadership. HR rewards are tied to the quality and creativity of our staff able to continuously come up with improved products, services and processes. Risks, on the other hand, surface whenever key technical and/or management staff are found wanting in regard to our requirements. A linchpin in reducing such eventualities is MAN AG's corporate Leadership Supply department that screens and advances specialist and management staff so that over the years ahead we can draw on the necessary human resources.

During fiscal 2006 all Executive Board members and next-tier management staff underwent detailed management assessment to make sure that key positions are staffed by the right persons and in order to identify potentials and fields of action. A first move in 2006 was the development of staff through job rotation and transfer, thus assigning them an appropriate position in the Group in line with their fortes.

Finances
The financing functions of the MAN Group and its operating companies are handled centrally by MAN AG.

One key task is to ensure cash supplies sufficient not only for strategic purposes but also short-term cash requirements of business operations. To this end, a system has been set up to report the liquid funds needed now and in the foreseeable future. Long-term financial planning is part of the triennial corporate plan and is supplemented by a revolving 12-month financial budget.

Varying exchange rates may impact on the prices for goods and services as well as on profit margins. As a matter of principle, the MAN Group hedges all firm customer contracts, its own foreign-currency purchase orders and other transactions 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). In this context, the currency risks from exchange rate spikes may entail material departures from budgeted sales.

The repercussions of exchange rate volatility on the purchasing power of our customers also represent both risks and rewards. Adverse forex trends may, under certain circumstances, depress buying propensity as reflected in eroding sales and profit.

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

Financial derivatives and other hedges are exclusively contracted via MAN's Group Treasury and are subject to stringent internal controls. We confine our currency and interest rate risk management to the use of marketable instruments for the sole purpose of hedging current underlyings and, to some extent, forecasted transactions-never for any speculations.

Operating worldwide, the MAN Group is exposed to a plurality of financial market risks which we manage through organizational procedures and suitable financial instruments.

Major strategic risks may arise from changes in our shareholding portfolio. Examples include M&A where certain assumptions underlying purchase pricing fail to materialize after the acquisition, such as when potential synergies cannot be harnessed.

Moreover, M&A transactions may alter the MAN Group's financing structures, thus potentially entailing higher financing costs and/or a narrower financial scope.

For the envisaged combination with Scania, we held shares equivalent to 11.6 percent of Scania AB's capital stock as of December 31, 2006. This stake's 2006 closing market value of €1.25 billion is subject to stock market volatility and may entail the need for write-down.

In most cases, counterparty and country risks are reduced as early as during negotiations with customers through appropriate contract and payment terms and conditions, as well as through collateralization. Any residual risks are classed according to debtor standing and largely shifted or assigned to banks or insurers, using suitable hedging tools.

Guaranty bonds are substantially provided centrally by or through MAN AG to ensure that standardized and restrictive rules are observed. In this context, our attention is focused on the avoidance, wherever possible, of any unjustified enforcement of such bonds.

With a view to downsizing the accounting risks attaching to pension obligations, the MAN Group has externally funded parts of its pension liabilities and accruals by separating certain assets from its operating assets. These pension plan assets are placed by external investment companies but, albeit based on the rules of a prudent investor, their fair value is nonetheless subject to the concomitances of interest rate and stock price swings.

We plan to fund acquisitions by using both equity and debt and, in this context, strive to be investment-graded by renowned rating agencies.

Assessment of MAN's current and future risks

On the basis of the risk management system set up by the MAN Group, the Executive Board notes that at the present time there are no perceivable risks that might have a material long-term adverse effect on the Group's asset and capital structure, financial position, or results of operations. The risk management system including the related organizational mechanisms enable the Executive Board to obtain early warning of any risk situation in order to take adequate action.

In itself, risk management is a never-ending, dynamic process. In 2007, we will again repeatedly hone our systems to match them to changing parameters and the newest developments. Even more significance will be assigned to financial risk management in order to allow for the rising volatility of financial markets and the branching-out of our business into emerging countries. With the aid of groupwide indicators, risk control will be stepped up accordingly.

Significant subsequent events

As described on pages 98 et seq. of this management report, the Scania takeover bid was withdrawn in January 2007, which entailed the expiration of the related unutilized portion of the credit facility committed. Moreover, additional Scania shares were purchased in January and funded from current cash flows, bringing MAN AG's capital and voting-right stakes to 13.2 and 14.8 percent, respectively.

Apart from this, no events of material significance to the MAN Group occurred after the balance sheet date that might result in a different assessment of MAN. The business trend in January 2007 has endorsed the statements made in the *Prospects* chapter.

Prospects

	2007
Order intake	→
Sales	↗
Operating profit	↗
ROS	↗
ROCE	→

The global economic trend
In 2007, the global economy will again surge and currently there are no signs of flaccidity. Present predictions suggest a good 2-percent advance in Euroland's GDP, with Germany possibly gaining 2 percent, too. International economic growth in 2007 will total around 5 percent. Economic prospects therefore remain bright and demand for capital goods stays strong.

Demand for, in particular, transport services and hence for commercial vehicles is likely to remain buoyant both within Europe and worldwide. Other areas of importance for MAN—such as propulsion and energy—we likewise expect to ride the crest of demand.

Order intake and sales
The congenial economy and once again a very high share of megaorders propelled order intake to a new all-time high of €16.6 billion in 2006. For 2007 we expect the economy to stay favorable for capital goods albeit the volume of megacontracts of past years (MoD and Oman 2005: €1.7 billion; AUM and MoD 2006: €1.1 billion) will not repeat itself in 2007. There will be a strong and steady flow of new orders and for the Group as such we expect an order intake in the region of the 2006 magnitude.

Given its tall order backlog, the MAN Group's 2007 sales will again outgrow the €13.0 billion of 2006. All the manufacturing business areas are expected to advance, the Group in its entirety by 5+ percent in terms of sales.

Return ratios, operating profit, dividend policy
At the start of 2005 we had set ambitious return ratio benchmarks for the MAN Group and its business areas: by 2007, for the Group in its entirety an ROS of 6.0 percent on average for any one economic cycle and an ROCE of 18.0 percent. This latter benchmark had already been achieved in 2005, and last year for the first time we attained with 8.5 percent the ROS target by topping our uppermost figure for periods of thriving business. For 2007 we are targeting another improvement in ROS. Assuming the economy remains congenial and the order situation healthy, we aim to achieve an ROS of 9.0 percent, with all areas increasing their ROS. MAN Nutzfahrzeuge, in particular, will press ahead according to plan with its cost-pruning programs already initiated and raise its ROS.

As to the operating profit in 2007, the MAN Group is predicted to post another appreciable rise, mostly by Commercial Vehicles, with all the other areas also achieving conspicuous improvements. Net income (2006: €750 million excl. discontinued operations) and EpS (2006: €5.05) should then increase commensurately. The dividend distributed by MAN AG will continue to hinge on the Group's operating profit.

Growth strategy
For developments ahead we will continue along the path of progress. Commercial Vehicles' expansion regions are C&E Europe, the Middle East, and parts of Asia. These are markets we will feed from our new plant in Poland and the Indian joint venture.

Diesel Engines will vigorously extend its 4-stroke business, especially in the market for stationary diesels used in power plants. Concurrently, systems expertise will be amplified in the marine sector. With its clearly defined growth concept, Turbo Machinery will address the sustained surge in demand while Industrial Services is set to benefit from its sharper business focus.

All manufacturing areas will push ahead with expanding new business and above all massively strengthening their aftermarket business. Sales growth will be throughout accompanied by cost-reduction measures with a view to further enhancing our profitability.

Capital expenditures, R&D, procurement
Besides the ongoing modernization of the production plants, major capital expenditures in 2006 were directed toward the planned growth at Commercial Vehicles and Turbo Machinery. Following the €486 million laid out in 2006 (excl. Scania stock purchase), expenditures in 2007 will sink to around €420 million—mainly for further

efficiency improvements and adapting capacities to ongoing business. The budgeted amounts are fully fundable from our cash flow from operating activities.

R&D is of elementary significance for MAN since we are required to address with repeatedly refined engineering solutions the challenges set by markets and legislators. At the same time, R&D is not an end in itself but rigorously aimed at generating competitive advantages for our customers. Given these considerations, our R&D efforts spotlight such issues as advancing our commercial vehicle and diesel engines for enhanced performance, fuel efficiency and emission abatement, developing our truck and bus models, and improving to our Turbo Machinery product range. In comparison to the €396 million in 2006, the R&D budget for 2007 will show a slight increase.

In order to sustain the success of our purchasing efforts and achieve further synergies, our Common Purchase Strategy will be expanded in 2007 to systematically embrace further international supply sources.

Finance, liquidity

In 2007 we will continue boosting our cash flow from operations by turning the unfaltering uptrend of our operating profit into net cash provided from operating activities, raising it to a level well above that of 2006. We will readjust our business process fine-tuning in order to further downscale the capital employed in inventories and receivables, the budgeted sales upthrust notwithstanding.

Following a €350 million endowment in 2005 and another €310 million in 2006, we will provide additional special and current endowments for the pension plans in order to contribute further capital resources for funding the MAN Group's pension obligations. For this purpose, we will in future, too, opt for an economically sensible mix of cash flow from operating activities and external finance.

Thanks to the syndicated credit facility of €2.0 billion (which remained unutilized as of December 31, 2006), several bilateral bank credit lines, and the available cash assets, the MAN Group's liquidity position continues to be excellent. The Scania AB shares purchased in 2006 were funded by drawing on a syndicated M&A credit line.

Moreover, MAN AG has authorized capital of €188 million at par to finance growth.

Workforce

Including loaned labor, the number of employees in the MAN Group will remain in the region of 2006 (around 54,000).

Disclaimer

The forward-looking statements and information contained in this report are based on present expectations and certain assumptions. As a consequence, they harbor a series of risks and uncertainties. There are numerous factors, many of them beyond our control, that impact on our business operations and their results. These factors may mean that the actual performance and results shown by the MAN Group are widely at variance with the predictions stated.

MAN consolidated financial statements

for fiscal year 2006

MAN Group: Consolidated balance sheet

ASSETS		MAN Group		Industrial Business		Financial Services	
€ million	**Note**	**12/31/2006**	**12/31/2005**	**12/31/2006**	**12/31/2005**	**12/31/2006**	**12/31/2005**
Intangible assets	[15]	439	455	438	454	1	1
Tangible assets	[16]	1,649	1,882	1,559	1,726	90	156
Investment properties	[17]	77	–	42	–	35	–
Shares in associated affiliates	[18]	196	147	196	147	–	–
Financial investments	[18]	1,400	156	1,399	154	1	2
Assets leased out	[19]	2,395	2,408	1,590	1,619	805	789
Deferred tax assets	[12]	697	510	692	509	5	1
Other noncurrent assets	[22]	145	131	145	131	0	–
Noncurrent assets		**6,998**	**5,689**	**6,061**	**4,740**	**937**	**949**
Inventories	[20]	3,032	3,453	2,983	3,445	49	8
Trade receivables	[21]	2,987	3,177	2,324	2,725	663	452
Income tax assets		25	33	25	33	–	–
Assets of discontinued operations	[7]	244	–	244	–	–	–
Other current assets	[22]	798	609	596	537	202	72
Short-term securities		0	172	0	172	–	–
Cash & cash equivalents		1,162	1,019	1,147	1,009	15	10
Current assets		**8,248**	**8,463**	**7,319**	**7,921**	**929**	**542**
		15,246	**14,152**	**13,380**	**12,661**	**1,866**	**1,491**

MAN Group: Consolidated balance sheet

EQUITY & LIABILITIES		MAN Group		Industrial Business		Financial Services	
€ million	**Note**	**12/31/2006**	**12/31/2005**	**12/31/2006**	**12/31/2005**	**12/31/2006**	**12/31/2005**
Capital stock		376	376				
Additional paid-in capital		795	795				
Retained earnings		2,731	2,043				
Accumulated OCI		(144)	(245)				
Stockholders' equity		**3 ,758**	**2,969**	**3,622**	**2,837**	**136**	**132**
Minority interests		21	56	21	56	–	–
Total equity	**[23]**	**3,779**	**3,025**	**3,643**	**2,893**	**136**	**132**
Noncurrent financial liabilities	[24]	1,678	336	1,334	22	344	314
Pension obligations	[25]	946	1,499	943	1,497	3	2
Deferred tax liabilities	[12]	441	385	408	357	33	28
Other noncurrent accruals	[26]	509	513	509	513	0	0
Other noncurrent liabilities	[27]	1,354	1,132	1,352	1,132	2	–
Noncurrent liabilities and accruals		**4,928**	**3,865**	**4,546**	**3,521**	**382**	**344**
Current financial liabilities	[24]	430	682	327	566	103	116
Payables/(receivables) from intragroup financing		–	–	(1,086)	(677)	1,086	677
Trade payables		1,602	1,679	1,513	1,552	89	127
Prepayments received		1,557	1,740	1,557	1,740	–	0
Current income tax liabilities		409	121	409	121	0	0
Liabilities of discontinued operations	[7]	95	–	95	–	–	–
Other current accruals	[26]	1,006	1,255	998	1,229	8	26
Other current liabilities	[27]	1,440	1,785	1,378	1,716	62	69
Current liabilities and accruals		**6,539**	**7,262**	**5,191**	**6,247**	**1,348**	**1,015**
		15,246	**14,152**	**13,380**	**12,661**	**1,866**	**1,491**

MAN Group: Consolidated income statement for fiscal 2006

		MAN Group		Industrial Business		Financial Services	
€ million	**Note**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Net sales		**13,049**	**11,379**	**13,049**	**11,379**	**–**	**–**
Cost of sales		(10,161)	(8,943)	(10,161)	(8,943)	–	–
Gross margin		**2,888**	**2,436**	**2,888**	**2,436**	**–**	**–**
Other operating income	[9]	609	682	416	323	193	359
Selling expenses		(813)	(781)	(806)	(776)	(7)	(5)
General administrative expenses		(679)	(612)	(666)	(603)	(13)	(9)
Other operating expenses	[10]	(950)	(1,132)	(805)	(815)	(145)	(317)
Net P/L from associated affiliates	[18]	42	46	42	46	–	–
Income from financial investees		8	(2)	8	(2)	–	–
EBIT		**1,105**	**637**	**1,077**	**609**	**28**	**28**
Interest income	[11]	43	36	43	36	0	0
Interest expense	[11]	(125)	(98)	(125)	(98)	0	0
EBT		**1,023**	**575**	**995**	**547**	**28**	**28**
Income taxes	[12]	(273)	(160)	(265)	(150)	(8)	(10)
Net result of discontinued operations	[7]	175	57	175	57	–	–
Net income		**925**	**472**	**905**	**454**	**20**	**18**
Minority interests		7	10	7	10	–	–
Net income after minority interests (EAT)		**918**	**462**	**898**	**444**	**20**	**18**
EpS of continuing operations in €	**[13]**	**5.05**	**2.75**	**4.92**	**2.63**	**0.13**	**0.12**

MAN Group: Consolidated cash flow statement

	MAN Group		Industrial Business		Financial Services	
€ million	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
EBT	1,023	575	995	547	28	28
Current income taxes	(383)	(88)	(378)	(80)	(5)	(8)
Cash earnings of discontinued operations	15	94	15	94	–	–
Amortization/depreciation/write-down of noncurrent assets (other than assets leased out)	328	335	311	326	17	9
Change in pension obligations	19	47	19	47	0	0
Undistributed P/L of associated affiliates	(44)	(47)	(44)	(47)	–	–
Dividends received from investees	6	–	6	–	–	–
Other noncash income and expenses	(1)	(40)	(1)	(40)	–	–
Cash earnings	**963**	**876**	**923**	**847**	**40**	**29**
Change in inventories	(266)	(129)	(225)	(129)	(41)	0
Change in prepayments received	364	371	364	372	0	(1)
Change in trade receivables	(355)	(119)	(142)	130	(213)	(249)
Change in trade payables	177	60	200	46	(23)	14
Change in assets leased out	(85)	(169)	40	(13)	(125)	(156)
Change in customer payments for assets leased out	(78)	(37)	(78)	(37)	–	–
Change in income tax assets/liabilities, net	305	129	305	129	0	0
Change in other accruals	(47)	142	(40)	151	(7)	(9)
Change in other assets	(189)	(44)	(138)	(148)	(51)	104
Change in other liabilities	73	196	72	237	1	(41)
Elimination of the net gain/loss from fixed-asset disposal	(57)	(11)	(57)	(12)	0	1
Other changes in working capital	(28)	2	(30)	3	2	(1)
Net cash provided by/(used in) operating activities	**777**	**1,267**	**1,194**	**1,576**	**(417)**	**(309)**
Cash outflow for additions to tangible/intangible assets	(446)	(376)	(430)	(343)	(16)	(33)
Cash outflow for additions to investments	(1,214)	(28)	(1,214)	(26)	0	(2)
Cash inflow from fixed-asset disposal	111	59	103	55	8	4
Net cash used in investing activities of discontinued operations	(13)	(33)	(13)	(33)	–	–
Cash inflow from the disposal of discontinued operations and investees	233	0	233	0	–	–
Net cash used in investing activities	**(1,329)**	**(378)**	**(1,321)**	**(347)**	**(8)**	**(31)**
Free cash flow from operating and investing activities	**(552)**	**889**	**(127)**	**1,229**	**(425)**	**(340)**

	MAN Group		Industrial Business		Financial Services	
€ million	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Free Cashflow from operating and investing activities	**(552)**	**889**	**(127)**	**1,229**	**(425)**	**(340)**
Intragroup dividend distribution	–	–	17	19	(17)	(19)
Dividend payout	(203)	(159)	(203)	(159)	–	–
Securities sold/(purchased)	170	(12)	170	(12)	–	–
Financial liabilities (redeemed)/incurred	1,114	155	1,096	57	18	98
Change in intragroup finance	–	–	(437)	(265)	437	265
Special endowment of pension plans	(363)	(500)	(363)	(500)	–	–
Net cash (used in)/provided by financing activities of discontinued operations	(4)	1	(4)	1	–	–
Net cash provided by/(used in) financing activities	**714**	**(515)**	**276**	**(859)**	**438**	**344**
Net change in cash & cash equivalents	**162**	**374**	**149**	**370**	**13**	**4**
Opening cash & cash equivalents	**1,019**	**604**	**1,009**	**602**	**10**	**2**
Consolidation-related change in cash & cash equivalents	(10)	5	(2)	4	(8)	1
Parity-related change in cash & cash equivalents	(6)	36	(6)	33	0	3
Separately capitalized cash & cash equivalents of discontinued operations	(3)	–	(3)	–	–	–
Closing cash & cash equivalents	**1,162**	**1,019**	**1,147**	**1,009**	**15**	**10**

The cash flow from operating activities includes the cash inflow from interest of €58 million (up from €54 million), as well as the cash outflow for interest of €126 million (up from €66 million) and for income taxes paid at €113 million (in 2005, €24 million of income taxes refunded).

MAN Group: Statement of changes in comprehensive income 2006

	2006	2005
Currency translation differences from non-German subsidiaries	(30)	44
Change in fair value of securities and financial investments	73	(2)
Change in fair value of financial derivatives	6	(10)
Change in actuarial losses on pensions	35	(211)
Change in actuarial losses on accruals for accumulated termination indemnities	0	(13)
Offset of unrealized gains/losses from divestments	28	(3)
Proratable deferred taxes	(11)	85
Pretax gains/losses directly recognized in equity, net	**101**	**(110)**
Net income	**925**	**472**
Comprehensive income	**1,026**	**362**
thereof minority interests	7	10
thereof MAN stockholders	**1,019**	**352**

For more equity details, see also Note (23) below.

Notes to MAN's consolidated financial statements

Bases

(1) General

MAN AG is a listed corporation headquartered in Munich, Germany. With its four core business areas of Commercial Vehicles, Diesel Engines, Turbo Machinery and Industrial Services, the MAN Group is one of Europe's leading engineering groups, generating annual sales of €13 billion and employing a worldwide workforce of some 50,000.

The present consolidated financial statements of MAN AG for the fiscal year ended December 31, 2006, conform with the International Financial Reporting Standards (IFRS, which includes 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 2006 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 asset and capital structure, financial position and results of operations, MAN has additionally broken down the consolidated financial information into Industrial Business and Financial Services. Industrial Business covers all MAN Group companies other than the MAN Finance Group's. Within the MAN Group, MAN Finance mainly transacts sales financing business for Commercial Vehicles, besides financing receivables and intragroup leases for capital goods. For enhanced transparency, the balances from eliminating intragroup transactions between Financial Services and Industrial Business have been assigned to the latter segment.

The consolidated financial statements have been prepared in euros (€), the Group's reporting currency, all amounts being shown in million euros unless otherwise stated.

(2) Consolidation and valuation investments

(a) Investments in general
MAN AG's investments (i.e., shareholdings) encompass shares in subsidiaries, joint ventures, associated affiliates, and financial investees.

Subsidiaries are investees whose financial and business policies can be controlled by MAN AG, either according to their articles of association or equivalent, or under an intercompany or other contractual agreement. For virtually all such investments, this control is based on the majority of voting rights which are directly or indirectly held by MAN AG. Special-purpose entities in which MAN AG does not hold a voting majority are nonetheless consolidated if MAN AG owns the majority of risks and rewards.

Joint ventures are investees which are under the joint control of MAN AG and one or more venturers. Joint control is predicated on a contractual agreement and thus differs from significant influence. Associated affiliates are investees on which MAN AG can exert significant influence through its power to participate in the investee's financial and business policies. As a rule, any voting interest of 20–50 percent is deemed tantamount to significant influence.

Financial investments are all other investees which are neither under the controlling nor any significant influence of MAN AG.

(b) Subsidiaries
Consolidated Companies
The consolidated financial statements include MAN AG as the parent and all its consolidated subsidiaries. Subsidiaries acquired during the fiscal year are included *pro rata temporis* (p.r.t.) as from the date at which control over their financial and business policies is transferred, while those disposed of during the fiscal year are excluded from consolidation as from the date of their disposal.

Number of consolidated companies

	Germany	Abroad	Total
Included as of December 31, 2005	67	131	198
Newly included in fiscal 2006	4	5	9
Excluded in fiscal 2006	(10)	(45)	(55)
Included as of December 31, 2006	**61**	**91**	**152**

No significant shares in subsidiaries were acquired in 2006, the initially consolidated ones primarily referring to newly formed companies. Most disposals involved MAN Roland Druckmaschinen AG and MAN TAKRAF including their subsidiaries; for details, see Note (7) below. Intermesa Trading S.A., Rio de Janeiro, Brazil, in 2005 a fully consolidated company in which MAN Ferrostaal holds a 48.5-percent stake, has been carried at equity as associated affiliate as from January 1, 2006, since MAN Ferrostaal no longer intends to acquire the majority therein; this affiliate is part of the Steel Trade unit and hence included in the assets of discontinued operations.

Major investees are listed on pages 190 et seq. 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.

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 residual positive difference (i.e., the net prorated equity of the acquiree under cost) is allocated to the appropriate MAN business area as cash-generating unit (CGU) and separately 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. When a subsidiary is disposed of, its proratable goodwill is duly accounted for to determine the net gain or loss from disposal.

Intercompany accounts (profits, gains, losses, income, expenses, receivables, 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 recognized for consolidation transactions if these affect the income statement.

(c) Associated affiliates and joint ventures

Associated affiliates and joint ventures are carried at equity and capitalized at cost. Subsequently, MAN's share in the profits or losses generated after the acquisition date is recognized in the income statement. Any other changes (such as currency translation differences) in the equity of associated affiliates and joint ventures are recognized in, and only in, equity. Intercompany profits/losses from business transacted between MAN companies and associated affiliates or joint ventures are eliminated pro rata from the P/L of such affiliates or JVs.

Any goodwill arising from the acquisition of an associated affiliate or joint venture is reflected in such investee's book value. When an associated affiliate or joint venture is disposed of, its proratable goodwill is duly accounted for to determine the net gain or loss from disposal.

(d) Financial investees

If a publicly quoted market price or other reliably determinable fair value exists, financial investments are carried at such value; if not, they are stated at cost. Financial investees stated at cost are tested for impairment wherever certain facts hint at a potential impairment, and if found impaired, written down accordingly, the impairment loss being recognized in the income statement.

(e) Currency translation of investees

The functional-currency method is used to translate the financial statements of non-Euroland subsidiaries and associated affiliates. The functional currency of subsidiaries is that used in their primary economic environment and corresponds virtually throughout to their local currency. However, certain subsidiaries use the euro (albeit not their local currency) as their functional currency.

Balance sheet lines are generally translated at the current closing, and income statement captions at the annual average, rates. The annual average rates are generally derived from the monthly means.

In the fixed-asset and accruals schedules and the statement of changes in comprehensive income, 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 lines, the annual average rates are used for translation. 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	
	12/31/2006	12/31/2005	2006	2005
US dollar	1.3170	1.1797	1.2573	1.2456
Pound sterling	0.6715	0.6853	0.6825	0.6839
Danish krone	7.4560	7.4605	7.4592	7.4516
Swiss franc	1.6069	1.5551	1.5746	1.5473
Swedish krona	9.0404	9.3885	9.2678	9.2844
Polish złoty	3.8310	3.8600	3.9008	4.0313
Japanese yen	156.93	138.90	146.05	136.92
South African rand	9.2124	7.4642	8.5604	7.8901
Canadian dollar	1.5281	1.3725	1.4202	1.5122

(3) Accounting and valuation

Except for certain financial instruments which are stated at fair value, the consolidated balance sheet is prepared on the basis of (purchase or production) cost. The consolidated financial statements are based on MAN AG's and its subsidiaries' financial statements, which are all subject to MAN-wide uniform accounting and valuation methods.

(a) Revenue recognition

Sales are realized 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.

Revenue from customized (or dedicated) manufacturing contracts is recognized on a percentage-of-completion (PoC) basis, see subnote (i) hereof for details.

Sale transactions where an MAN company incurs a buyback obligation at a predetermined value are not accounted for as sales in full but pro rata, distributed over the period up to buyback date, and recognized as operating leases (presently affecting Commercial Vehicles only).

If the sale of products includes a specifiable sum for future services (so-called multiple contract), the revenue allocable to such services is deferred and amortized to income pro rata of the services rendered over the contract term.

(b) Operating expenses and income

Operating expenses are recognized when the underlying products or services are utilized, whereas expenses for advertising and sales promotion and other sale-related expenses are recognized when incurred. Cost of sales breaks down into the production cost of goods sold and the purchase cost of merchandise sold. In addition to direct materials and direct labor, production cost also comprises production-related overheads, including the depreciation of production plant and equipment and write-down of inventories.
We provide for accrued warranty obligations when the products are sold. Research expenses are directly charged to income. Interest and other cost of debt are expensed in the period.

Financial Services revenues from (capital and operating) leases are shown as other operating income. Correspondingly, interest expense from refinancing leased assets is shown as other operating expenses.

Public grants are recognized when the associated qualifying conditions are reasonably certain to be met and the grants are actually awarded. They are recognized in the income statement, as a rule in the periods in which the expenses to be reduced or offset by the grants are incurred.

(c) 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 is mostly three 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 (indefinite-lived intangibles) are not amortized but tested at least once annually for impairment. If found impaired, they are written down to their current fair value.

Expenses incurred for developing new products or series are capitalized (i) when the new products or series are found technically and economically feasible, (ii) when they have been scheduled for internal use or marketing, (iii) if the expenses can be reliably determined, and (iv) if sufficient resources are available for development project completion, any other R&D expenditures being directly expensed. 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 rollout. Amortization is charged on a straight-line basis, as a rule over five to seven years (ten years within Diesel Engines). While a development project is still in progress, the accumulated capitalized costs are tested for impairment at least once annually.

(d) 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 and also written down wherever found required.

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

(e) Investment properties
Investment properties are real estate held for lease-out and/or capital appreciation and, within the MAN Group, include mainly those reclassified as nonessential in the wake of the 2006 change in real estate policy. Like other tangibles, investment properties are carried at depreciated cost, their fair value being reported in the notes—cf. Note (17)—mostly as determined internally through generally accepted valuation techniques or, in some cases, substantiated by external appraisal reports.

(f) Leasing, assets leased out
In capital asset leases (so-called investment leases), companies of the MAN Group are lessees. If a lessee bears substantially all significant risks and rewards associated with the leased asset's use, the underlying contract is treated as capital lease (*a.k.a.* finance lease). In this case, the lessee capitalizes the leased asset and recognizes the corresponding financial liability. Any other leases where MAN companies are lessees are treated as operating leases, the lease payments thereunder being expensed. Under customer financing leases for assets leased out, MAN Finance companies are lessors und either capital or operating leases, depending on the contract terms. Contracts under which MAN Finance keeps the leased asset after lease expiration, as well as sale contracts subject to a buyback obligation, are in the MAN Group accounted for

as operating leases. The asset leased out is capitalized at cost and depreciated on a straight-line basis over the lease term or until bought back, whichever is appropriate.

(g) Impairment losses/write-down

Wherever any clues indicate that the book values of intangible or tangible assets, assets leased out or investment properties may be impaired, IAS 36 requires that an impairment test be conducted: first the amount recoverable for this asset is determined to identify the necessary write-down (if any). Recoverable amount is the higher of an asset's net fair value (i.e., fair value less costs to sell) or its value in use. Value in use is the present value of expected cash flows. Where no recoverable amount is determinable for a specific asset, the amount recoverable for the smallest identifiable asset group (cash-generating unit, or CGU) to which the asset can be assigned is determined instead. If an asset's book value exceeds its recoverable amount, the asset is directly written down, this impairment loss being recognized in net income.

If subsequent to write-down, the asset's or CGU's recoverable amount rebounds, write-up is credited (and recognized in the income statement) up to the amortized or depreciated cost which would have been carried in the accounts had the impairment loss not been charged.

(h) 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. 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.

(i) Customized manufacturing contracts

Dedicated 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, revenue is recognized only at the amount of contract costs actually incurred.

(j) Straight financial instruments

Straight financial instruments mainly include trade receivables from customers, long-term loans, financial investments, securities, cash and cash equivalents, as well as financial liabilities and trade payables. Straight financial instruments are initially capitalized at cost and in subsequent periods carried at fair value or amortized cost, depending on the category to which they are assigned.

Where no separate fair value is indicated in these notes, fair value equals book value (or carrying amount).

- Loans and receivables, held for purposes other than trading are generally carried at amortized cost. Within the MAN Group, this category primarily includes trade receivables from customers, the remaining receivables, and long-term loans. Non- or low-interest receivables with a remaining term above 3 months are discounted. Receivables expected 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.

- Monetary assets available for sale are carried at fair value; within the MAN Group, they basically include securities and financial investments. The difference between cost and fair value is recognized, after duly accounting for deferred taxes, in equity only within other comprehensive income (OCI). If the book value exceeds fair value over the long term or significantly, the corresponding impairment loss is charged as write-down in the income statement.

  The fair value of securities corresponds as a rule to the stock market price. Non-listed and/or non-quoted financial investments whose fair value is not reliably determinable are carried at cost. An impairment test is conducted wherever facts indicate an impairment, any resulting impairment loss being charged as write-down in the income statement.

- Assets held for trading are carried at fair value. If no market values are available, fair values are determined by means of adequate valuation techniques, such as DCF methods. Such straight financial instruments are, however, rarely found within the MAN Group.

- Financial investments held to maturity are carried at amortized cost but exist within the Group in isolated cases only.

- Financial liabilities are initially recognized at cost and thereafter carried at amortized cost, except for financial derivatives.

(k) Financial derivatives and hedges

The MAN Group uses various financial derivatives to hedge current or planned/forecasted underlyings against currency, interest rate or market value risks. Major financial derivatives of relevance to the MAN Group are currency forwards, forex options, and interest rate swaps.

Financial derivatives are measured at fair (market) value. 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 *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, firmly contracted underlying (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 revenues from series manufacture and for high-probability customer projects. In this case, any change in fair value is recognized in a separate equity line (OCI) after deducting deferred taxes. When the hedged transaction is recognized in the income statement, the proratable OCI is, too, by adjusting *net sales*.

Any financial derivatives failing to meet the requirements 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 (31).

(l) Deferred tax assets

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 (in Germany, an unchanged 39.9 percent for 2006). Deferred tax assets are not recognized unless the attendant tax reductions are likely to 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.

(m) Pension obligations

Pension obligations are determined according to the projected unit credit (PUC) method by measuring, and discounting to their current present value, the defined benefit obligations on the basis of the prorated entitlements acquired by employees by the balance sheet date, duly taking into account assumptions of the future trend of certain parameters that impact on future pension levels. Moreover, the fair value of plan assets is deducted from pension accruals. For measurement details, see Note (25).

Actuarial gains and losses are recognized in OCI only, after duly accounting for deferred taxes.

(n) Other accruals

The *other accruals* provide for all identifiable risks and uncertain commitments whose materialization is more likely than not, at the best estimate of the amount required for settlement. 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 market rates while accruals for obligations owed in kind are not if predicated on current prices.

(o) Noncurrent assets held for sale and discontinued operations

A noncurrent asset is classified as held for sale if it is to be realized mainly by disposal and not through its use in business or operations. Such assets are shown in a separate line at the lower of book value or net fair value (NFV, i.e., FV less costs to sell).

An organizational unit is reported as discontinued operation if (i) representing a major operation for the MAN Group and (ii) destined for disposal or already sold. A discontinued operation is valued at the lower of its book value or NFV and reported in separate lines of the balance sheet, cash flow statement, and income statement. Additional comments are made thereon in the notes to the consolidated financial statements.

For further details, turn to Note (7).

(p) 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 the groupwide consistent application of useful lives, the recognition and measurement of pension obligations, the accounting for sale contracts subject to buyback obligations, to other accruals, the recognition of deferred tax assets and the capitalization 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 breaks down cash flows into those from operating, investing and financing activities. Effects of changes in the consolidation group and exchange rates are eliminated in the lines concerned. The net (forex) parity-related 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 fixed-asset disposal are all eliminated. Changes in assets leased out and in customer prepayments thereon are shown within the cash flow from operating activities. Cash earnings are shown in a separate line within this caption and represent the cash flow change attributable to the net income or loss for the year.

The cash flow from investing activities reflects the cash outflow for tangible/intangible assets and investments. This cash outflow is offset against the cash inflow from the disposal of tangible and intangible assets, investments, and discontinued operations. Cash and cash equivalents taken over are deducted from the expenditures for acquiring subsidiaries.

The cash flow from financing activities mirrors the cash dividends distributed, cash inflow from and outflow for securities, the financial liabilities redeemed or newly raised, as well as special endowments provided for MAN Pension Trust e.V. and non-German pension plans. 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 valuation and accounting methods, policies and rules

(a) Accounting for employee benefit obligations
In fiscal 2006, the accounting for pension employee benefit obligations has been changed in that the option of offsetting actuarial gains and losses in the year of their incurrence against pension accruals and recognizing them in equity only (OCI) has been exercised. Consequently, MAN's pension obligations are shown at the present value of the defined benefit obligation (DBO) without deducting any actuarial losses. Consequently, the previous recognition in the income statement of actuarial gains/losses according to the corridor method is no longer applied. Deferred tax assets from the increase in pension accruals are duly recognized in, and only in, OCI within equity.

Another change refers to certain statutory benefit obligations, mainly for accumulated termination indemnities in Austria. Such obligations are no longer assigned to pension obligations but to *other accruals*.

The prior-year balance sheet comparatives have been restated as follows (the income statement 2005 not being affected by the change):

€ million	2005		
	Previous accounting	Change	Current accounting
Equity	3,278	(253)	3,025
Pension obligations	1,185	314	1,499
Other accruals	1,675	93	1,768
Deferred tax assets	356	154	510

b) Disclosure of interest expense within Financial Services
Also changed has been the disclosure of interest expense within Financial Services. As is standard practice in the financial services business, revenue from leases is no longer included in *net sales* but reported as *other operating income*. Analogously, interest expense from refinancing leased assets and financed receivables from customers is shown as *cost of sales* and not within the *net interest result*. Thanks to this change, Financial Services' operating profit equals its reported EBIT (before eliminating one-time results).
The following lines of the income statement 2005 have been restated accordingly:

€ million	2005
	Accounting change
Net sales	(244)
Cost of sales	180
Gross margin	**(64)**
Other operating income	244
Other operating expenses	(221)
EBIT	**(41)**
Interest income	(1)
Interest expense	42
EBT	**–**

(c) Changed IASB rules
Fiscal 2006 saw the first-time application of IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, an Interpretation that has not at all significantly impacted on MAN's accounting. IFRIC 5, *Rights to Interests from Decommissioning, Restoration and Environmental Rehabilitation Funds*, does not affect the MAN Group. Further approved and released IFRICs to be applied in future periods are not expected to entail any significant accounting changes either.

The IASB has issued IFRS 7, *Financial Instruments: Disclosures*, whose application is mandatory as from fiscal 2007. The new Standard subsumes several financial instrument disclosure rules, amending some reporting obligations and adding others. The MAN Group expects the application in 2007 to result in more detailed disclosures in the notes.

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

(a) Acquisitions
On April 7, 2006, Oberhausen-based MAN TURBO AG concluded an asset deal to take over the steam turbine operations of B+V Industrietechnik GmbH (BVI)— a Hamburg subsidiary of Essen-based ThyssenKrupp Technologies AG (TKT)—with a workforce of 235 and sales of €60 million. The purchase price totaled €16 million and included assets and liabilities at a current fair value of €38 million and €24 million, respectively, the goodwill hence amounting to €2 million.

On April 30, 2006, MAN Nutzfahrzeuge AG and India's Force Motors Limited formed MAN FORCE TRUCKS Private Limited, Pithampur, India. MAN Nutzfahrzeuge AG holds a 30-percent stake, acquired at cost of €10 million. The purposes of the company, which is carried at equity as associated affiliate in the consolidated financial statements, include the production of heavy trucks branded FORCE and MAN, initially for the Indian and in the future also the remaining markets of Asia and for Africa.

When the MAN Roland Group was sold, MAN AG subscribed on July 18, 2006, for a 35-percent or €96 million share in the new Roland Holding GmbH. For details, see subnote (c) below.
On September 29, 2006, MAN Diesel SE took over from MTU Friedrichshafen GmbH the remaining 33.4-percent stake in the French diesel engine manufacturer S.E.M.T. Pielstick S.A., a subsidiary (meantime renamed *MAN Diesel S.A.*) located in Villepinte near Paris and under MAN Diesel SE's management. The purchase price amounted to €12 million.

MAN did not acquire any significant new investees in 2005.

(b) Public bid for the takeover of the shares in Scania AB, Södertelje, Sweden, and purchase of Scania stock

On November 6, 2006, MAN AG had submitted a public bid expiring January 31, 2007, for taking over all of the shares in Scania Aktiebolag (Scania AB). Each Scania stockholder was offered in exchange for one Scania share either a combination of cash and MAN AG stock, or cash only, i.e., alternatively 0.151 MAN AG shares plus €41.12 cash for one class A or B Scania share, or a cash payment of €51.29. The bid was withdrawn on January 23, 2007.

Upstream of its public offering, MAN AG had acquired in September and October 2006 altogether 15,186,773 and 8,081,486 class A and class B Scania shares, respectively, for a total price of €1,174 million. MAN AG had committed itself to increase the purchase price to the final bid price if 90 percent or more of Scania stock would be taken over at a higher price than that paid before. The stock purchased represents 11.63 percent of Scania AB's capital stock or 14.54 percent of the voting rights.

(c) Disposals in 2006

By agreement dated July 18, 2006, MAN AG sold and transferred its investment in MAN Roland Druckmaschinen AG to Roland Beteiligungs GmbH at a price of €624 million. In fiscal 2006, MAN earned a posttax profit of €160 million from this transaction, plus a cash flow of €255 million. The cash and cash equivalents transferred to the acquirer totaled €263 million. Indirectly via Roland Holding GmbH, Roland Beteiligungs GmbH is held at 65 and 35 percent by Allianz Capital Partners and MAN AG, respectively. For MAN Roland's disclosure as discontinued operation up to the divestment date, see Note (7).

MAN TAKRAF Fördertechnik (parented by MAN Ferrostaal) was sold in July 2006 to Munich-based VTC Industrieholding GmbH for €29 million. The posttax result from this divestment broke even. The outflow from the MAN Group of the MAN TAKRAF Group's cash and cash equivalents produced a negative cash flow of €22 million.

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

On December 7, 2004, Essen-based MAN Ferrostaal AG sold and transferred a majority stake in DSD Steel Group GmbH, a subsidiary bundling its structural steel business, to Belgium's Pirson Group. The 51-percent stake was sold at a price of €10.2 million while for the remaining 49%, 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%. 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 on or after December 31, 2007.

(7) Discontinued operations

As part of its portfolio-streamlining move, the MAN Group in fiscal 2005 and 2006 disposed, or initiated the divestment, of several units which qualify for disclosure as discontinued operations under the terms of IFRS 5. Therefore, the consolidated financial statements show the regular net income, the net gain/loss from disposal, the assets and liabilities as well as the cash flows, in separate lines. As required by IFRS 5, the prior-year comparatives in the income statement have been adjusted, however, neither those in the balance sheet as of December 31, 2005, nor the cash flow statement.

The units affected in 2006 include the MAN Roland Group, whose business activities up to the July 18, 2006 sale and transfer to Roland Beteiligungs GmbH as of June 30, 2006, are shown within the discontinued operations. This acquirer and transferee funded the purchase price externally through both equity and debt.

Another unit is MAN AG's steel-trading business after MAN Ferrostaal had in Q3/2006 taken steps to dispose of this division.

Revenue, income and expenses of the discontinued printing system and steel-trading operations in the 6-month and 12-month periods ended June 30 and December 31, 2006, respectively and in fiscal 2005, were as follows:

€ million	2006	2005
Net sales	2,136	3,048
Expenses, other income (net)	(2,055)	(2,957)
Operating profit	81	91
Net one-time loss	–	(12)
Net interest expense	(10)	(16)
Income taxes	(41)	(21)
Net income of discontinued operations	30	42
Posttax gain from disposal	145	–
Posttax profit of discontinued operations	**175**	**42**

The posttax profit of discontinued operations breaks down into €160 million for Printing Systems (up from €25 million) and €15 million for Steel Trade (down from €17 million). The steel-trading unit's €244 million assets separately shown in the balance sheet as of December 31, 2006, include €16 million and €228 million of noncurrent and current assets, respectively; its liabilities of €95 million break down into €4 million of noncurrent, and €91 million of current, liabilities and accruals.

The cash flows of discontinued operations are included in the consolidated cash flow statements 2006 and 2005 at these amounts:

€ million	2006	2005
Cash flow from operating activities	(22)	249
Cash flow from investing activities	(13)	(33)
Cash flow from financing activities	(4)	1

(8) Adjustment of prior-year comparatives
The changed accounting and valuation policies, methods and rules, as well as the accounting for discontinued operations, have entailed the like-for-like (LFL) adjustment of the prior year's comparatives.

In the balance sheet, only the lines mentioned in Note (5)(a) are affected while in the income statement, the changes refer not only to the lines quoted in Note (5)(b) but also to the income of expenses of Financial Services, cf. Note (7).

Adjustments of the consolidated income statement 2005

€ million	2005 published	Adjustment due to IFRS 5	Accounting Change	2005 LFL
Net sales	**14,671**	**(3,048)**	**(244)**	**11,379**
Cost of sales	(11,729)	2,606	180	(8,943)
Gross margin	**2,942**	**(442)**	**(64)**	**2,436**
Other operating income	474	(36)	244	682
Selling expenses	(931)	150	–	(781)
General administrative expenses	(703)	91	–	(612)
Other operating expenses	(1,070)	159	(221)	(1,132)
Net P/L from associated affiliates	46	–	–	46
Income from financial investees	(1)	(1)	–	(2)
EBIT	**757**	**(79)**	**(41)**	**637**
Net interest result of Financial Services	(41)	–	41	0
Net interest result of Industrial Business	(78)	16	–	(62)
EBT	**638**	**(63)**	**–**	**575**
Income taxes	(181)	21	–	(160)
Posttax profit of discontinued operations	15	42	–	57
Net income	**472**	**–**	**–**	**472**
Minority interests	10	–	–	10
Net income after minority interests (EAT)	**462**	**–**	**–**	**462**
EpS in €	**3.04**	**(0.29)**	**–**	**2.75**

Notes to the income statement

(9) Other operating income

€ million	2006	2005
Gains from financial instruments	172	136
Income from Financial Services	128	244
Income from the release of accruals	94	90
Income from other trade business	59	68
Gains from the disposal of tangible/intangible assets	20	17
Miscellaneous income	136	127
	609	**682**

The gains from financial instruments substantially reflect the results from remeasuring financial derivatives and effectively hedged underlyings and contrast with same-amount other operating expenses. Moreover, they include exchange gains of €34 million from the realization of receivables and payables (down from €40 million).

The income from Financial Services represents that earned from the business of MAN Finance. The slump from the 2005 level is largely attributable to the shift from operating to capital leases.

(10) Other operating expenses

€ million	2006	2005
Research and development	279	255
Financial instruments expenses	191	115
Provisions in the year	152	238
Financial services expenses	69	221
Allowances for receivables	51	57
Expenses due to nonrecurring effects	–	37
Miscellaneous expenses	208	209
	950	**1,132**

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.

Expenses due to nonrecurring effects were not incurred in 2006 but the year before, they were for the closedown of plants in Stuttgart and Geisenheim. 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.

Financial instruments expenses and the expenses from Financial Services correspond with other operating income, see Note (9).

(11) Net interest expense

€ million	2006	2005
Interest and similar income	58	54
less interest reclassified into net sales	(15)	(18)
Interest and similar expenses	(126)	(66)
Interest portion of addition to pension accruals	(84)	(73)
Interest income from CTA plan assets	36	0
less interest reclassified into other operating expenses	49	41
	(82)	**(62)**

The increase in interest expense is basically attributable to the commitment interest for financing the acquisition of, and the purchase of stock in, Scania AB.

The interest expense reclassified into *other operating expenses* at €49 million (up from €41 million) was incurred for refinancing the leased-asset portfolio of Financial Services.

Moreover, interest income of €15 million (down from €18 million) from the temporary investment of sums prepaid by customers on account of long-term contracts was reclassified into *net sales*.

(12) Income taxes

Breakdown of income tax expense:

€ million	2006	2005
Current taxes		
Germany	264	25
abroad	119	68
Deferred taxes		
Germany	(116)	84
abroad	6	(17)
	273	**160**

The expected income tax was calculated by applying a total 39.9 percent (unchanged) 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.

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

€ million	12/31/2006	12/31/2006
Deferred tax assets		
Noncurrent assets	50	–
Inventories and receivables	56	109
Other accruals	77	114
Pension obligations	178	235
Other liabilities	140	5
Loss carryovers	196	47
	697	**510**
Deferred tax liabilities		
Noncurrent assets	178	265
Inventories and receivables	137	96
Other assets	66	5
Untaxed/special reserves in separate fin. statements	9	8
Pension obligations	2	–
Other accruals	41	11
Other liabilities	8	–
	441	385

Reconciliation of expected to actual income tax expense:

€ million	2006	%	2005	%
EBT	**1,023**	**100.0**	**575**	**100.0**
Expected income tax	**408**	**39.9**	**229**	**39.9**
Tax-free income	(126)	(12.3)	(42)	(7.3)
Foreign tax rate differentials	(65)	(6.4)	(37)	(6.4)
Statement at equity of associated affiliates	(17)	(1.7)	(17)	(3.0)
Utilization of loss carryovers not capitalized in prior years and write-up of deferred tax assets	(14)	(1.4)	(6)	(1.1)
Taxes for prior years	102	10.0	-	-
Nondeductible business expenses	14	(1.4)	8	(1.4)
Other	(29)	(2.8)	25	4.3
Actual tax expense	**273**	**26.7**	**160**	**27.8**

German companies have capitalized deferred tax assets for loss carryovers (corporate income tax and municipal trade tax) at a total €181 million (up from €33 million), foreign companies for their local taxes a total €15 million (up from €14 million). Tax loss carryovers exist at €497 million (down from €658 million) but have not been capitalized due to vague realizability.

(13) Earnings per share (EpS)

€ million	2006	2005
Net income after minority interests	918	462
thereof posttax profit of discontinued operations	175	57
Net income from continuing operations after minority interests	**743**	**405**
Number of shares outstanding (million)	147.0	147.0
EpS (€)	**5.05**	**2.75**

The number of shares outstanding on an annual average is divided into the Group's net income from continuing operations after minority interests (EAT) to obtain earnings per share. Unchanged, the number of shares includes both common and preferred stock as both classes equally share in the 2006 earnings.

No unexercised stock options existed to dilute earnings per share, whether at December 31, 2006 or 2005. If MAN AG's contingent (authorized but unissued) capital is issued, earnings will be diluted in the future.

EpS of discontinued operations came to €1.19 (up from €0.39).

(14) Additional notes to the income statement

Cost of materials

€ million	2006	2005
Cost of raw materials, supplies, and merchandise purchased	6,436	5,362
Cost of services purchased	651	640
	7,087	**6,002**

Payments under operating leases

€ million	2006	2005
	10	**11**

Personnel expenses

€ million	2006	2005
Wages and salaries	2,277	2,211
Social security, pension expense and related employee benefits	501	501
	2,778	**2,712**

The pension expense of €182 million (up from €176 million), including €117 million (up from €109 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 €84 million (up from €73 million).

Annual average headcount of continuing operations

	2006	2005
Commercial Vehicles	33,835	33,645
Diesel Engines	6,378	6,650
Turbo Machinery	3,053	2,458
Industrial Services	4,483	4,696
Others	2,245	2,321
	49,994	**49,770**

Amortization/depreciation *)

€ million	2006	2005
of intangible assets	84	75
of tangible assets	246	269
of investment properties	3	–
	333	**344**

Write-down *)

€ million	2006	2005
of tangible assets	11	20
of financial investees	3	14
	14	**34**

*) 2005 data incl. discontinued operations

The reasons for write-down are explained in Notes (16) et seq.

Notes to the balance sheet

(15) **Intangible assets**

€ million	Licenses, software, similar rights and assets	Capitalized development costs	Goodwill	Intangible assets
Gross book value at 1/1/2005	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 at 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)
Balance at 1/1/2006	**47**	**211**	**197**	**455**
Consolidation group changes	(4)	(17)	(9)	(30)
Additions	23	83	4	110
Disposals	(4)	0	(6)	(10)
Amortization/write-down	(18)	(66)	0	(84)
Currency translation differences	(1)	0	(1)	(2)
Balance at 12/31/2006	**43**	**211**	**185**	**439**
Gross book value at 12/31/2006	117	440	185	742
Accumulated amortization/write-down	(74)	(229)	0	(303)

The amortization charged in the period to finite-lived intangibles (licenses, software, similar rights and assets, as well as development costs) totaled €84 million (up from €75 million) and is included in the appropriate functional expense categories, mainly cost of sales, while no write-down was charged to goodwill in either 2006 or 2005.

Analysis of goodwill		
€ million	**12/31/2006**	**12/31/2005**
Trucks	35	34
Buses	85	91
Commercial Vehicles	**120**	**125**
Web-fed presses—Printing Systems	**–**	**9**
Medium-speed engines—Diesel Engines	**14**	**14**
Turbo Machinery	**51**	**49**
	185	**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 discounting the expected future cash flows (DCF method) as stated in the current 3-year plan for the segment concerned.

The key planning assumptions include primarily currently expected trends of the market in relation to MAN's, the trends of material production and other costs and of after-sales business, as well as the discount rate. When determining these assumptions, general market forecasts, current trends and empirical data enter into consideration.

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 discount rate applied is MAN's pretax WACC of 11.0 percent. Goodwill is impaired if the segment's value in use is smaller than its book value.

Due to the results of the impairment tests in 2006, no write-down has been charged (unchanged versus 2005). Additional what-if scenarios, in which certain parameters varied within a realistic scope have not resulted in any need for goodwill write-down either.

(16) **Tangible assets**

€ million	Land and buildings	Production plant and machinery	Other plant, factory and office equipment	Prepayments on tangibles, construction in progress	Tangible assets
Gross book value at 1/1/2005	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	(59)	(128)	(82)	–	(269)
Write-down (impairment losses)	(20)	–	–	–	(20)
Currency translation differences	6	2	1	0	9
Balance at 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)
Balance at 1/1/2006	**1,021**	**565**	**243**	**53**	**1 882**
Consolidation group changes	(123)	(44)	(33)	2	(198)
Additions	26	119	79	130	354
Book transfers	19	19	2	(61)	(21)
Reclassification into investment properties	(69)	–	–	–	(69)
Disposals	(26)	0	(11)	(1)	(38)
Depreciation	(49)	(130)	(67)	0	(246)
Write-down	(4)	(2)	(5)	–	(11)
Currency translation differences	(1)	(2)	(1)	1	(3)
Reclassification into discontinued operations	(1)	0	0	0	(1)
Balance at 12/31/2006	**793**	**525**	**207**	**124**	**1,649**
Gross book value at 12/31/2006	1,619	1,841	1,023	126	4,609
Accumulated depreciation/write-down	(826)	(1,316)	(816)	(2)	(2,960)

The depreciation charged to tangible assets at €246 million (down from €269 million) is included in the appropriate functional expense categories, mainly cost of sales. Write-down, which is recognized in other operating expenses, refers to lack of utility and lower fair values.

No charges or similar encumbrances on land collateralize any liabilities in 2006 (down from €13 million).

(17) Investment properties

€ million	2006
Balance at January 1	**–**
Reclassification from tangible assets	80
Depreciation/write-down	(3)
Balance at December 31	**77**
Gross book value at December 31	198
Accumulated depreciation/write-down	(121)

A change in real estate policy meant that properties reclassified in 2006 as nonessential are disclosed in 2006 in a separate line, *investment properties*. At December 31, 2006, their fair value totaled €110 million.

Rental income was earned at €5 million.

(18) Shares in associated affiliates, financial investees

The shares in associated affiliates of €196 million (up from €147 million) chiefly cover Roland Holding GmbH, Munich; CEL Consolidated Energy Ltd., Port of Spain, Trinidad & Tobago; and MAN FORCE TRUCKS Pvt. Ltd., Pithampur, India. In addition, another three small-business companies have been carried at equity in 2006.

Key data of associated affiliates	2006				2005
€ million	Roland Holding	Consolidated Energy (CEL) *)	Other	Total	Total
Assets	1,755	408	397	2,560	429
Liabilities	1,619	0	267	1,886	46
Net sales	2,052	–	52	2,104	–
EBT	44	78	1	123	85

*) Interim financial statements as of October 31, 2006

€1,254 million of the financial investments reflects the 11.63-percent stake in Scania AB (corresponding to a 14.54-percent voting interest), stated at fair value as of December 31, 2006. The stake was purchased at cost of €1,174 million, the difference between cost and fair value being recognized in, and only in, equity.

No write-down was charged to shares in associated affiliates, while €3 million was to financial investments (down from €14 million).

The assets of discontinued operations include Intermesa Trading S.A. at €13 million (up from nil).

(19) Assets leased out

€ million	2006	2005
Gross book value at 1/1	3,409	3,211
Accumulated depreciation	(1,001)	(959)
Balance at 1/1	**2,408**	**2,252**
Consolidation group changes	–	(16)
Additions	964	1,013
Book transfers	(99)	2
Disposals	(445)	(380)
Depreciation	(435)	(464)
Currency translation differences	2	1
Balance at 12/31	**2,395**	**2,408**
Gross book value at 12/31	3,978	3,409
Accumulated depreciation	(1,583)	(1,001)

The assets leased out are commercial vehicles operating-leased, or sold with a buyback option, to customers.

Future rents from noncancelable operating leases		
€ million	12/31/2006	12/31/2005
Due within 1 year	376	660
Due >1 to 5 years	985	839
Due after 5 years	9	6
	1,370	**1,505**

For assets sold subject to potential buyback obligations, the future revenue disclosed is the total of customer payments yet to be collected up to the date of expected return of the vehicles.

(20) Inventories

€ million	12/31/2006	12/31/2005
Raw materials and supplies	487	497
Work in process and finished products	1,838	2,118
Merchandise	548	570
Prepayments made	159	268
	3,032	**3,453**

Inventories of €682 million were written down (up from €354 million), the write-down totaling €50 million (up from €24 million).

(21) Trade receivables

€ million	12/31/2006	12/31/2005
Receivables from customers	2,240	2,718
Receivables under capital leases	536	278
PoC receivables	125	143
Due from investees	86	38
	2,987	**3,177**

€206 million (down from €216 million) allows for bad debts among trade receivables. Receivables of €6 million (down from €12 million) have been assigned as collateral security to banks under customer financing contracts.

€164 million (down from €338 million) of the receivables has a lock-in period (i.e., with fixed interest rates) above one year, including €4 million (down from €9 million) above five years. The remaining €2,823 million (down from €2,839 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 capital leases* refer to leases for commercial vehicles. The gross investments reflect the sum total of lease payments up to lease expiration plus the vehicle's residual value at lease-end. The present value is obtained by discounting this total at the rate implicit in the lease.

Gross investments in capital leases		
€ million	12/31/2006	12/31/2005
Due within one year	189	100
Due after one but within five years	403	210
Due after five years	14	1
	606	**311**

Present value of the minimum lease payments due under capital leases: aged breakdown

€ million	12/31/2006	12/31/2005
Due within one year	127	66
Due after one but within five years	279	137
Due after five years	8	1
	414	**204**

Reconciliation of gross investments to the present value of minimum lease payments:

€ million	12/31/2006	12/31/2005
Future minimum lease payments	484	237
Unguaranteed residual value	122	74
Gross investment in capital leases	**606**	**311**
Unearned finance income	(63)	(27)
Allowances	(7)	(6)
Net investment in capital leases	**536**	**278**
Unguaranteed residual value	(122)	(74)
Present value of future minimum lease payments	**414**	**204**

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

€ million	12/31/2006	12/31/2005
Production cost incl. prorated P/L from PoC contracts	1,502	1,542
less milestones capitalized as WIP	0	(8)
less amounts billed to customers	(364)	(327)
PoC receivables, gross	**1,138**	**1,207**
less prepayments received	(1,013)	(1,064)
	125	**143**

Further prepayments received at €283 million (down from €379 million) for which no contract costs have been incurred are shown as liabilities.

Sales from PoC manufacturing contracts totaled €791 million (up from €702 million). Orders and parts thereof billed to customers are shown under *receivables from customers*.

(22) Other assets

€ million	12/31/2006	12/31/2005
Loans and other receivables from third parties	217	198
VAT (input tax) receivable	113	53
Financial derivatives	88	79
Prepaid expenses and deferred charges	63	42
Due from investees from intragroup finance	59	29
Reserve from employer's pension liability insurance	48	54
Non-income tax assets	11	19
Sundry current assets	344	266
	943	**740**

The other assets are disclosed in these balance sheet lines:

€ million	12/31/2006	12/31/2005
Other noncurrent assets	145	131
Other current assets	798	609

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.

€145 million (up from €45 million) of the other assets has a lock-in period above one year, including €54 million (up from €7 million) above five years. The remaining €798 million (up from €695 million) is either not covered by any lock-in agreements, or interest rates have been fixed for less than one year.

(23) Equity

€ million	Capital stock	Additional paid-in capital	Retained earnings	Accumulated OCI	Stockholders' equity	Minority interests	Total
Balance at Dec. 31, 2004	**376**	**795**	**1,729**	**(135)**	**2,765**	**85**	**2,850**
Dividend payout			(154)		(154)	(5)	(159)
Net income			462		462	10	472
OCI: currency translation differences				42	42	2	44
OCI: change in unrealized gains/losses				(149)	(149)	(1)	(150)
All other changes			6	(3)	3	(35)	(32)
Balance at Dec. 31, 2005	**376**	**795**	**2,043**	**(245)**	**2,969**	**56**	**3,025**
Dividend payout			(199)		(199)	(4)	(203)
Net income			918		918	7	925
OCI: currency translation differences				(30)	(30)		(30)
OCI: change in unrealized gains/losses			(22)	125	103		103
All other changes			(9)	6	(3)	(38)	(41)
Balance at Dec. 31, 2006	**376**	**795**	**2,731**	**(144)**	**3,758**	**21**	**3,779**

(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, thereof 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 annual stockholders' meeting of June 3, 2005, created authorized capital: MAN AG's Executive Board 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 and/or contributions in kind. According to the statement of May 24, 2005, the Executive Board will exercise this authority, when increasing the capital against noncash contributions, only up to an aggregate €75,284,480 (20 percent of the current capital stock). When the capital stock is raised 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 (authorized but unissued capital), 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 exchange for cash.

The authority conferred by resolution of the annual stockholders' meeting of June 3, 2005, to repurchase treasury stock was rolled over by resolution of the annual stockholders' meeting of May 19, 2006. The Executive Board is consequently authorized, after obtaining approval from the Supervisory Board, to repurchase on or before November 18, 2007, once or several times MAN AG common and/or nonvoting preferred stock. The authority is capped at an aggregate 10 percent of the capital stock. Such treasury stock may also be reacquired by other MAN companies and/or third parties for the account of MAN AG or other MAN 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.

In addition, the Executive Board is authorized, subject to Supervisory Board approval but without any further vote by the stockholders' meeting, to withdraw any treasury shares of common and/or nonvoting preferred stock.

(b) Reportable stakes in MAN AG

Pursuant to Art. 21(1) clause 1 German Securities Trading Act ("WpHG"), Wolfsburg-based Volkswagenwerk AG notified MAN AG in October 2006 that its voting interest in MAN AG had crossed above the 10-percent mark, then coming to 15.06 percent. In September 2006, AXA S.A. notified MAN AG that its voting stake had crossed below the 5- and 10-percent marks, shrinking to 3.24 percent as of that date.

(c) Reserves

MAN AG's additional paid-in capital comprises stock premiums from 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 €547 million (up from €507 million), as well as MAN AG's net earnings of €294 million (up from €199 million). In addition, the earnings retained by the Group include (i) the (positive/negative) earnings retained or left unappropriated by subsidiaries and (ii) the differences from the statement at fair value between the separate and the consolidated financial statements.

MAN AG's Supervisory Board will propose to the annual stockholders' meeting that per share a cash dividend of €1.50 plus a €0.50 bonus be distributed, corresponding to a total of €294 million. The remaining changes in retained earnings comprise OCI of associated affiliates at €16 million (up from €12 million).

(d) Accumulated other comprehensive income

€ million	12/31/2006	12/31/2005
Currency translation differences from non-German subsidiaries	(29)	1
Change in fair value of securities and financial investments	80	4
Change in fair value of financial derivatives	2	4
Actuarial losses on pensions	(288)	(380)
Actuarial losses on accruals for accumulated termination indemnities	(25)	(25)
Proratable deferred taxes	116	151
	(144)	**(245)**

Out of the hedges disclosed in 2005 in this equity line at a total €4 million, €1 million was realized upon recognition in net income through sale or reclassification, €3 million refers to the remeasurement to fair value after marking financial instruments to the market, and another €4 million to initial consolidation or deconsolidation.

(e) Minority interests

Most of the minority interests originate from RENK AG, Augsburg, in whose capital stock MAN holds a 76-percent stake. The €35 million decrease to €21 million is basically attributable to (i) the acquisition of the remaining 33.4 percent of the stock in the French diesel manufacturer S.E.M.T. Pielstick S.A. and (ii) the deconsolidation of Brazil's Intermesa Trading S.A.

(24) Financial liabilities

€ million	12/31/2006	12/31/2005
Syndicated loan for Scania stock purchase	1,170	–
Bonds	302	314
Commercial paper	87	114
Due to banks	549	587
Other	–	3
	2,108	**1,018**

Financial liabilities are disclosed in the following balance sheet lines:

€ million	12/31/2006	12/31/2005
Noncurrent financial liabilities (due >1 year)	1,678	336
thereof remaining term >5 years	8	12
Current financial liabilities (due within >1 year)	430	682

On September 17, 2006, MAN AG signed an €11 billion credit facility agreement with a banking syndicate (led by Citygroup, Global Markets Limited, The Royal Bank of Scotland plc, Bayern LB, West-LB AG, and Handelsbanken Capital Markets) on a credit facility committed to fund the planned Scania acquisition. By December 31, 2006, a facility portion of €1,170 million was utilized at an annual interest rate of 4.078 percent to purchase Scania stock. After the January 23, 2007 withdrawal of the public offering, the unutilized balance of this facility expired.

In December 2003, MAN Financial Services plc, Swindon, UK, floated a €300 million 5.375-percent bond issue. As of December 31, 2006, the book value (including the re-measurement to fair value from FVH accounting for interest rate hedges) amounted to €302 million (down from €314 million), the fair value to €308 million (down from €321 million). The bond will mature on December 8, 2010. For this bond issue, MAN AG has furnished an irrevocable guaranty for the payment obligations in accordance with the bond terms.

The commercial paper (CP) was issued through London-based TARS Ltd. and serves to refinance assets leased out in Great Britain.

Out of the liabilities to banks, a total €25 million carries interest at fixed rates, ranging between 3.75 and 5.09 percent. The remaining accounts due to banks bear interest at variable rates.

The 2006 interest rates in Euroland ranged between 3.47 and 4.07 percent, those for non-euro currencies (mainly the pound sterling and the South African rand) being higher, according to local rate levels.

(25) Pension obligations

Pension accruals break down as follows:

€ million	12/31/2006	12/31/2005
Pension obligations in Germany	929	1,412
Pension obligations abroad	17	87
	946	**1,499**

(a) Pension plans and funding

Employees of German MAN subsidiaries mostly 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.

Fiscal 2005 had seen MAN's initial steps toward funding the capital for German pension obligations, i.e., by transferring on December 19, 2005, a total of €500 million as initial endowment to MAN Pension Trust e.V., a membership corporation under German law as trustee. When MAN Roland Druckmaschinen AG was sold and transferred in 2006, €150 million was transferred to MAN Roland Pension Trust e.V. On December 21, 2006, another €310 million was contributed to MAN Pension Trust e.V. Further endowments are subject to specific decisions.

Under irrevocable agreements, these trust assets are exempt from recourse or attachment by any MAN 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 MAN 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 acquisition of securities issued or floated by MAN AG or an MAN company is prohibited, as is (in Germany) any investment in real estate.

Some non-German subsidiaries in the UK and Switzerland have incurred defined benefit obligations (DBO), too, all of which are exclusively plan-funded. Fiscal 2006 saw a special UK pension plan endowment with €53 million. Obligatory contributions to defined benefit plans are expected to amount to €10 million in 2007.

Plan asset portfolio structure

	Germany		Abroad	
€ million	**2006**	**2005**	**2006**	**2005**
Bonds	506	391	186	88
Equities	164	110	191	211
Real estate	–	–	24	1
Other	–	–	8	1
Total plan assets	**670**	**501**	**409**	**301**

Plan assets returned 2.8 percent in Germany, 7.4 in Great Britain, and 4.7 in Switzerland.

Pension plan reclassification mainly affected the plans in Switzerland which, in the wake of the amended Swiss pension law, were reclassified as defined benefit plans.

Further subsidiaries in France, Austria, Poland, and the Philippines maintain accrual-funded defined benefit plans that involve minor obligations only.

b) Funding status

Present value of the DBO

	Germany		Abroad	
€ million	**2006**	**2005**	**2006**	**2005**
Present value of the DBO at Jan. 1	1,913	1,796	388	199
Consolidation group changes	(317)	(102)	(110)	99
Plan reclassification	–	–	147	–
Current service cost	29	36	10	7
Interest cost	65	82	19	16
Past service cost	7	–	–	–
Actuarial losses	(25)	185	(12)	43
Pension payments	(75)	(82)	(21)	(12)
Contributions by beneficiaries	–	–	4	2
Exchange rate changes, other	2	(2)	0	34
Present value of the DBO at December 31	**1,599**	**1,913**	**425**	**388**

Movement of plan assets

	Germany		Abroad	
€ million	**2006**	**2005**	**2006**	**2005**
Fair value of plan assets at January 1	501	–	301	174
Consolidation group changes	(150)	–	(111)	62
Plan reclassification	–	–	143	–
Expected return on plan assets (ROPA)	15	1	21	15
Difference between expected and actual ROPA	(6)	–	3	33
Current contributions by employers	0	–	10	10
Special endowment by employers	310	500	53	1
Contributions by beneficiaries	–	–	4	2
Pension payments	–	–	(20)	(12)
Exchange rate changes, other	–	–	5	16
Fair value of plan assets at December 31	**670**	**501**	**409**	**301**

Funding level and pension accruals

	Germany		Abroad	
€ million	**2006**	**2005**	**2006**	**2005**
Unfunded DBO	315	1,092	4	9
Plan-funded DBO	1,284	821	421	379
Total DBO	**1,599**	**1,913**	**425**	**388**
Plan assets at fair value	(670)	(501)	(409)	(301)
Funding level at December 31	**929**	**1,412**	**16**	**87**
Unrecognized plan assets	–	–	1	–
Pension accruals at December 31	**929**	**1,412**	**17**	**87**

The present value of the DBO as well as the plan assets are based on the following parameters:

	Germany		Abroad	
	12/31/2006	12/31/2005	12/31/2006	12/31/2005
Interest rate	4.25%	4.25%	3.0%–5.7%	4.25 % – 4.9%
Pension rise	1.5%	1.5%	0.5%–3.0%	2.0 % – 2.9%
Pay rise	2.5%	2.5%	1.4%–4.5%	3.6 % – 4.4%
Expected ROPA	4.25%	4.25%	3.0%–6.8%	4.25 % – 7.0%

Prof. Dr. Klaus Heubeck's mortality tables 2005 G (unchanged) underlie the biometrical parameters for pensions in Germany as of December 31, 2006.

In Germany, the expected return on plan assets is based on the interest rate for matching-maturity Bunds plus risk premiums according to standard asset classes. Abroad, ROPA is determined by the local actuary, based on groupwide uniform parameters for the expected returns on each asset class and currency.

(c) Pension expense

Pension expense breaks down as follows:

€ million	2006	2005
Current service cost	39	34
Past service cost	7	–
Interest cost	84	85
Special pension plan endowment	–	18
Expected return on plan assets	(36)	(16)
	94	**121**

The prior-year comparatives do not include the expense of the discontinued Printing Systems operations (service cost of €9 million and pension-related interest cost of €13 million).

(26) **Other accruals**

€ million	12/31/2005	Consol. group change, currency transl.	Utilization	Provision in 2006	Release	12/31/2006
Warranties	504	(46)	(183)	286	(76)	485
Unbilled costs from contracts invoiced	281	(68)	(146)	156	(11)	212
Other business obligations	392	(36)	(157)	257	(74)	382
Obligations to personnel	320	(53)	(45)	60	(22)	260
Remaining accruals	271	(55)	(98)	107	(49)	176
	1,768	**(258)**	**(629)**	**866**	**(232)**	**1,515**

The *other accruals* are disclosed in these balance sheet lines:

	12/31/2006		12/31/2005	
€ million	**noncurrent**	**current**	**noncurrent**	**current**
Warranties	178	307	154	350
Unbilled costs from contracts invoiced	97	115	87	194
Other business obligations	24	358	29	363
Obligations to personnel	206	54	240	80
Remaining accruals	4	172	3	268
	509	**1,006**	**513**	**1,255**

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 guarantees.

The obligations to personnel exist for accrued employment anniversary allowances, termination indemnities, and preretirement part-time work, as well as statutory termination benefits.

Noncurrent accruals have been discounted at €13 million (down from €21 million).

(27) Other liabilities

€ million	12/31/2006	12/31/2005
Deferred income from assets leased out	1,780	1,859
Liabilities to personnel	357	417
Due to financial investees from intragroup finance	235	234
Financial derivatives	82	68
Liabilities for non-income taxes	138	131
Accrued charges	53	63
Remaining liabilities	149	145
	2,794	**2,917**

The *deferred income from assets leased out* originates from the sale of commercial vehicles which, due to the associated buyback obligation, are accounted for as operating leases. At €1,310 million, this deferred income includes the full purchase price paid by customers (down from €1,389 million) and at €470 million (virtually unchanged), 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 balance sheet date, as well as to the accrued vacation pay, Christmas bonuses, and special year-end payments.

The *other liabilities* also include the negative market values of financial derivatives. Since the latter serve hedging purposes, their negative market values contrast with increased values in the balance sheet lines of the underlyings.

The *other noncurrent liabilities* have a remaining term above 1 but under 5 years.

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

€ million	12/31/2006	12/31/2005
Other noncurrent liabilities	1,354	1,132
Other current liabilities	1,440	1,785

Other information

(28) 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 London 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.

With a view to ensuring the enforceability of its claims for damages, MAN has additionally taken legal action in the United States, inter alia against DaimlerChrysler North America Holding Corp. and Freightliner LLC. In December 2006, a jury of the Multnomah County Circuit Court, Oregon, USA, has held in MAN's favor that the defendants fully share the liability for MAN's UK-asserted claims for damages. Moreover, the court assessed punitive damages of $350 million, a portion thereof yet to be decided upon being due to MAN.

Since defendant Freightliner Ltd. applied for an order of certiorari to appeal from the London judgment, and given that an appeal has been announced to be lodged against the US judgment, the claim has not been capitalized in the balance sheet.

Contingent liabilities

€ million	12/31/2006	12/31/2005
Guaranties and suretyships	472	402
Buyback guaranties	192	311
Obligation in favor of consortium partners	–	44
Notes endorsed and discounted	12	10
Warranty/indemnity contracts	2	–

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.

The contingent liabilities under guaranties/suretyships and warranty/indemnity contracts include €46 million which MAN AG had assumed prior to the disposal of MAN Roland Druckmaschinen in favor of the latter's customers and/or banks.

Buyback guaranties exist on terms customary in the industry for debts owed by customers to financing companies that finance MAN product purchases through third parties; these contingent liabilities refer to commercial vehicles at €192 million (up from €148 million) and, for 2005, also to printing machines at €163 million.

Contingent liabilities are as a rule disclosed at the ceiling of the financial liability enforceable against MAN, no recourse claims are offset.

In addition, some obligations for contracts of MAN Roland Druckmaschinen which refer to warranties for orders with an original volume of €389 million are owed in kind in the event that MAN Roland fails to perform certain contractual obligations.

As 50-percent joint venturer of MAN Finance (S.A.), South Africa, MAN Finance has incurred additional funding obligations if this venture makes losses. The venture's current corporate plan predicts long-term profits.

(29) Other financial obligations

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

€ million	12/31/2006	12/31/2005
Investment leases, due		
within one year	15	19
after one but within five years	53	45
after five years	42	44
	110	**108**
Obligations under property leases, due		
within one year	64	77
after one but within five years	182	222
after five years	179	186
	425	**485**

Further financial obligations to third parties exist under current 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.

(30) Total fees of statutory auditor

KPMG's and its subsidiaries' fees recognized as expense for the work as group auditor totaled €9.4 million in the fiscal year (up from €5.7 million), including €4.5 million for the annual audit (down from €5.0 million), €3.7 million for other certification, verification or assessment services (up from €0.3 million), €0.8 million for sundry services (up from nil), and €0.4 million for incidentals (virtually unchanged).

(31) 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 MAN 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

The MAN Group's international business involves a plethora of cash flows in many different currencies, exposing the Group to forex risks if sales are invoiced in a currency other than cost of sales. With a view to mitigating and reducing such risks, MAN AG assesses currency risks through ongoing (re)measurement, and hedges against part of these risks through financial derivatives.

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/series manufacturing business within defined limits and for customer projects whose materialization is highly probable (firm commitments).

Currencies with a very 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 (94 percent) and currency options (6 percent). Out of the total hedging volume as of December 31, 2006, the US dollar accounted for 29 percent, the pound sterling for 25, the Danish krone for 14, the South African rand for 11, the Swiss franc for 8, and the Japanese yen for another 5 percent.

€ million			**12/31/2006**	**12/31/2005**
Notional volume	**≤1 year**	**>1 year**	**total**	**total**
currencies bought	2,021	336	2,357	1,550
currencies sold	2,311	749	3,060	2,495
currency options	94	266	360	434
Fair market values	**positive**	**negative**	**total**	**total**
currencies bought	19	(39)	(20)	5
currencies sold	42	(40)	2	(27)
currency options	9	0	9	21

(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, 2006, external interest rate swaps existed in €, £ sterling, and Norwegian krone.

€ million			**12/31/2006**	**12/31/2005**
Notional volume	•1 year	>1 year	total	total
interest rate receiver swaps	67	369	436	459
interest rate payer swaps	590	1,070	1,660	1,366
Fair market values	**positive**	**negative**	total	total
interest rate receiver swaps	3	(1)	2	15
interest rate payer swaps	15	(2)	13	(3)

(d) Hedge breakdown by type of hedging relationship

€ million	**12/31/2006**	**12/31/2005**
Fair value hedges	4	(15)
Cash flow hedges	(1)	(1)
No hedge	3	27
	6	**11**

Cash flow hedges mostly expire within one year.

(e) 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.

(32) 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) program, 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 and 2006, the executive and certain 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 2006, its participants acquired a total 33,799 MAN common shares (down from 44,504) at an average price of €54.17 (up from €42.14), including 12,781 shares (down from 20,035) for MAN AG's Executive Board members. The expenses for shares purchased totaled €1.831 million (down from €1.875 million), including €0.692 million for stock acquired by MAN AG's Executive Board members (down from €0.844 million). The cash payments totaled €1.819 million in 2006 (down from €1.879 million). Total MSP expense in 2006 came to €3.650 million within the MAN Group (down from €3.754 million), including €1.380 million paid to MAN AG's Executive Board members (down from €1.689 million).

(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. During the previous years, the SAR plan 2003 has been fully utilized.

The number of the remaining SARs developed in 2006 as follows:

€	SAR 2000	SAR 2001	SAR 2004
Total SARs at January 1, 2006	203,970	81,500	325,700
exercised in the period	(163,500)	(81,500)	(271,600)
Total SARs at December 31, 2006	40,470	–	54,100

The SARs are fully exercisable.

The market prices relevant to SAR exercise are as follows:

Strike price in €	33.46	25.60	29.51
Minimum price for exercise in €	40.15	30.72	35.41
Maximum price for exercise in €	84.77	64.85	74.76
Market price at Dec. 31, 2006, in €	68.46	68.46	68.46

€6.794 million (down from €10.440 million) was paid out in the fiscal year as SARs were exercised, including €0.998 million (down from €1.112 million) under the SARP 2000, €0.906 million (down from €1.707 million) under the SARP 2001, and €4.890 million (up from nil) under the SARP 2004.

The SARs issued to MAN AG Executive Board members showed the following movements in 2006:

€	SARP 2000	SARP 2004
Total SARs at January 1, 2006	50,000	154,500
exercised in the period	(50,000)	(154,500)
Total SARs at December 31, 2006	–	–

€3.051 million (down from €4.957 million) was paid out to MAN AG Executive Board members as SARs were exercised, including €0.291 million (down from €0.561 million) under the SARP 2000 and €2.760 million (up from nil) under the SARP 2004.

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 €1.602 million as of December 31, 2006 (down from €3.547 million), the expenses incurred in fiscal 2006 came to €4.849 million (down from €8.008 million).

RENK AG implemented SAR plans modeled on MAN AG's. As of December 31, 2006, an unchanged 3,450 SARs remain from the 2003 plan; for these a (rounded) total of €42,000 has been provided (up from €26,000). An expense (rounded) of €16,000 was incurred in 2006 for the RENK SAR plans (down from €26,000).

(33) Remuneration of the Executive Board

The remuneration of Executive Board members consists of a fixed compensation in cash and in kind plus postretirement benefits, and of variable remuneration components. The performance-related variable bonus, in turn, comprises (i) annually recurring components hinging on corporate performance and (ii) long-term incentives that involve a certain risk.

- The fixed compensation is paid monthly as salary, added to this are benefits in kind, such as company car use and the provision of a driver, as well as payment by the Company of insurance premiums in their favor.
- The performance-related bonus is based on the MAN value added (MAN VA), the latter's formula being ROCE less WACC. A bonus is earned when ROCE has exceeded WACC and its amount depends on the degree to which the previously fixed MAN VA benchmark has been achieved or surpassed. The annual bonus has been capped, two-thirds of this bonus being paid out in cash while the other third must be invested in MAN stock, in analogy to the MSP (see below). In fiscal 2005, this variable bonus hinged on the MAN Group's current ROCE and MAN AG's dividend.
- The component pegged to MAN's long-term successful performance has since 2005 been granted in the form of the MSP. Under this MAN Stock Program, Executive Board members receive annual taxable cash compensation of 50 percent of their fixed remuneration, one-half of the incentive being earmarked for purchasing MAN common stock, the other half being paid out in cash. For MSP details, see Note (32).
- The postretirement benefits of Executive Board members encompass pensions as retirement and invalidity (disability) income and for surviving dependants. Since 2006, the postretirement benefit plan has been restructured as fund-based defined contribution plan. MAN AG pays annual contributions to an MAN pension fund. The contributions and the return thereon are maintained in individual capital accounts. The accumulated balance of a capital account bears interest in line with the performance of selected capital market indexes whose weighting depends on the beneficiary's age. The contributions and their yield plus the return on the plan's (i.e., the pension fund's) assets correspond to the

capital available upon retirement, invalidity or death, this capital account balance then being paid out in one sum, by installments or as annuities (at the beneficiary's discretion).

For further remuneration details of MAN AG's Executive Board members, see the board compensation report on pages 19 et seq. of this annual report.

Breakdown of Executive Board remuneration:

€ '000	2006	2005
Fixed compensation	2,949	3,493
Variable bonus (cash)	5,122	4,406
Variable bonus (stock) and MSP	3,620	1,689
Pension expense	2,033	740
Total	**13,724**	**10,328**

Executive Board remuneration in 2006 *)

€ '000	fixed	variable cash	variable stock and MSP	Pension expense	Total
Håkan Samuelsson (CEO)	812	1,387	1,083	347	3,629
Prof. Gerd Finkbeiner (up to 6/30)	251	647	–	308	1,206
Dr. h.c. Karlheinz Hornung	527	862	674	409	2,472
Dr. jur. Matthias Mitscherlich	518	862	674	311	2,365
Dr.-Ing. Georg Pachta-Reyhofen (as from 7/1)	257	431	459	334	1,481
Anton Weinmann	584	933	730	324	2,571
Total	**2,949**	**5,122**	**3,620**	**2,033**	**13,724**

*) Obligatory disclosure pursuant to Art. 315 HGB. In accordance with the Supervisory Board's corporate governance resolution in 2005, no prior-year comparatives are disclosed.

In settlement of his claims to stock-based payments for several years, Prof. Finkbeiner received €0.600 million.

As of December 31, 2006, the present value of the DBO to active Executive Board members totaled €5.917 million (down from €9.524 million). The expense for the annual pension provision came to €2.212 million (up from €1.129 million), including €1.282 million as one-time expense for the pension plan change, €0.751 million for service cost (up from €0.740 million), and €0.179 million for interest cost (down from €0.389 million).

Pension payments (including for the first year after contract termination and for the postretirement period) to former Executive Board members and their surviving dependants amounted to €5.747 million (down from €5.810 million), while the accrual for pension obligations to such former members and their surviving dependants totaled €43.945 million (up from €33.532 million).

The Executive Board members including their memberships in statutory supervisory and other comparable boards are listed on pages 188 et seq. of this annual report.

(34) Remuneration of the Supervisory Board

The Supervisory Board's remuneration breaks down as follows:

€ '000	2006	2005
Fixed fee	749	220
Variable fee	1,496	1,513
Committee membership fee	271	118
Total	**2,516**	**1,851**

Supervisory Board remuneration in 2006 (€'000)

Name	Membership in 2006	Fixed fee	Variable fee	Committee membership fee	Total 2006	Total 2005
Dr.-Ing. Ekkehard D. Schulz, Chairman	all year	70	140	88	298	135
Lothar Pohlmann, Vice-Chairman as from 5/19/2006	all year	46	91	46	183	98
Dr. rer.pol. Gerlinde Strauss-Wieczorek, Vice-Chairwoman	up to 3/16/06	11	22	11	44	138
Prof. Dr.-Ing. Joachim Milberg, Vice-Chairman	all year	53	105	52	210	113
Jürgen Bänsch	up to 7/30/06	18	35	–	53	79
Michael Behrendt	all year	35	70	–	105	79
Dr. Dipl.-Ing. Herbert H. Demel	all year	35	70	–	105	45
Detlef Dirks	all year	35	70	–	105	79
Jürgen Dorn	all year	35	70	–	105	79
Klaus Eberhardt	all year	35	70	–	105	45
Reinhard Frech	up to 7/18/06	18	35	–	53	39
Dr.-Ing. Robert Glauber	since 9/14/06	10	21	–	31	-
Dr. rer. nat. Hubertus von Grünberg	all year	35	70	–	105	79
Jürgen Hahn	all year	35	70	–	105	79
Dr. phil. Klaus Heimann	all year	35	70	–	105	79
Jürgen Kerner	since 5/3/06	23	46	–	69	-
Dr. jur. Karl-Ludwig Kley	all year	35	70	52	157	68
Prof. Dr. rer.pol. Renate Köcher	all year	35	70	–	105	79
Wilfrid Loos	since 9/14/06	10	21	–	31	-
Nicola Lopopolo	all year	35	70	–	105	79
Thomas Otto	all year	35	70	22	127	79
Dr.-Ing. E.h. Rudolf Rupprecht	all year	35	70	–	105	45
Dr. rer. nat. Hanns-Helge Stechl	all year	35	70	–	105	79
Members resigned in 2005		–	–	–	–	256
Total 2006		749	1,496	271	2,516	–
Total 2005		220	1,513	118	–	1,851

For their membership in supervisory boards of other MAN companies, Mr. Dorn received (all figures rounded) another €12,000, Mr. Hahn €12,000, Mr. Kerner €5,000, Herr Loos €3,000 and Mr. Otto €12,000.

Expenses refunded for attending Supervisory Board and committee meetings totaled approx. €60,000 in 2006 (virtually unchanged). No compensation was paid to Supervisory Board members for advisory or agency services.

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 since 2006 has consisted of three components:

- a fixed basic €35,000,
- a variable fee of €175 for each €0.01 of MAN AG's earnings per share in excess of €0.50, the cap for the variable fee being twice the fixed basic fee;
- an additional fee if acting as chairperson or vice-chairperson of the Supervisory Board, for committee membership, and for chairing a committee. The Supervisory Board chairperson receives double, the vice-chairpersons 1.5 times, the fixed basic and variable fees. As from fiscal 2006, membership not only in the Audit Committee but also the Standing and Personnel Committees are remunerated separately: Committee members are paid an additional 50 percent, a committee's chairperson 100 percent, of the Supervisory Board basic fee for each committee office.

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, 2006, amounted to €0.026 million (down from €0.028 million).

The Supervisory Board members including their memberships in other statutory supervisory and comparable boards are listed on pages 184 et seq. of this annual report.

(35) Corporate governance code

In December 2006, MAN AG's Executive and Supervisory Boards issued, and disclosed to the stockholders on the Internet, their annual declaration of conformity pursuant to Art. 161 AktG, stating that MAN AG has adopted the recommendations of the German Corporate Governance Code Government Commission in accordance with its prior-year declaration of conformity. Moreover, MAN AG will in future carry out the recommendations of the Code as amended up to June 12, 2006.

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.

(36) Subsequent events

On January 23, 2007, MAN AG withdrew its public offering for the takeover of Scania stock, the unutilized portion of the takeover-related credit facility having consequently expired. During the bid term, MAN AG purchased in January 2007 another 3.2 million Scania B shares, bringing its stake to 13.23 percent of the capital stock, and 14.83 percent of the voting rights, of Scania AB.

(37) Segment reporting

(a) Definition of segments

In accordance with the lineup of products and services, the MAN Group's operations break down into the Commercial Vehicles, Diesel Engines, Turbo Machinery and Industrial Services segments. These segments are identical with the MAN Nutzfahrzeuge, MAN Diesel, MAN TURBO and MAN Ferrostaal business areas. Under the umbrella of Others, the industrial subsidiary RENK, MAN Finance and the parent MAN AG as holding company and corporate center are subsumed, the latter also comprising companies with no operating business.

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 105 et seq. of the group management report.

(b) Condensed financial information of the segments

	Commercial Vehicles		Diesel Engines		Turbo Machinery		Industrial Services	
€ million	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Noncurrent assets (excl. taxes)	3,654	3,610	185	184	152	105	365	368
thereof shares in associated affiliates	10	–	–	–	–	–	156	147
Inventories	1,543	1,462	556	486	155	121	594	754
Receivables	1,795	1,573	383	349	209	220	425	614
Income (incl. deferred) tax assets	279	251	47	23	18	13	79	122
Assets of discontinued operations	–	–	–	–	–	–	254	–
Cash & cash equivalents and securities	55	24	241	114	184	55	448	545
Total assets	**7,326**	**6,920**	**1,412**	**1,156**	**718**	**514**	**2,165**	**2,403**
Equity	1,170	992	394	357	156	108	255	305
Pension obligations	596	790	85	172	64	79	74	82
Financial liabilities	826	752	139	2	4	5	33	34
All other liabilities and accruals	4,551	4,212	755	608	436	291	1,593	1,904
Liabilities of discontinued operations	–	–	–	–	–	–	116	–
Income (incl. deferred) tax liabilities	183	174	39	17	58	31	94	78
Net liquid assets/(Net financial debt)	**(771)**	**(728)**	**102**	**112**	**180**	**50**	**415**	**511**
Net sales	**8,685**	**7,377**	**1,802**	**1,666**	**908**	**694**	**1,379**	**1,414**
Cost of sales	(6,851)	(5,841)	(1,288)	(1,274)	(696)	(540)	(1,126)	(1,142)
Gross margin	**1,834**	**1,536**	**514**	**392**	**212**	**154**	**253**	**272**
Selling expenses	(473)	(463)	(124)	(122)	(67)	(60)	(121)	(112)
General administrative expenses	(376)	(352)	(75)	(63)	(44)	(35)	(88)	(86)
P/L from associated affiliates	–	–	–	–	–	–	31	46
All other income/expenses, net	(315)	(276)	(86)	(90)	(30)	(16)	44	(56)
EBIT	**670**	**445**	**229**	**117**	**71**	**43**	**119**	**64**
Net interest result	(111)	(63)	(1)	(9)	(2)	(4)	(38)	(7)
EBT of continuing operations	**559**	**382**	**228**	**108**	**69**	**39**	**81**	**57**
EAT of discontinued operations	**–**	**–**	**–**	**–**	**–**	**–**	**15**	**13**
EBITDA	**883**	**664**	**261**	**158**	**88**	**56**	**145**	**86**
thereof amortization/depreciation/write-down	(213)	(219)	(32)	(41)	(17)	(13)	(26)	(22)
Cash flow from operating activities	**562**	**523**	**223**	**199**	**185**	**88**	**(94)**	**315**
thereof cash earnings	509	506	186	140	87	50	40	(17)
Cash flow from investing activities	**(274)**	**(229)**	**(30)**	**(40)**	**(45)**	**(5)**	**4**	**(25)**
thereof capital expenditures/investments	(334)	(260)	(49)	(43)	(53)	(13)	(22)	(33)
Free cash flow	**288**	**294**	**193**	**159**	**140**	**83**	**(90)**	**290**
Cash flow from financing activities	**(256)**	**(285)**	**(66)**	**(55)**	**(38)**	**(30)**	**238**	**(390)**

[1] 2005 incl. discontinued operations and MAN DWE
[2] P/L of associated affiliate Roland Holding GmbH included in 2006 in Consolidation at €12 million

Others/Consolidation											
RENK		MAN Finance		Corporate Center		Consolidation [1]		Total		Group	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
61	57	932	948	1,494	173	(542)	(266)	1,945	912	6,301	5,179
–	–	–	–	30	–	–	–	30	–	196	147
139	122	49	8	1	–	(5)	500	184	630	3,032	3,453
92	70	865	524	335	104	(319)	332	973	1,030	3,785	3,786
14	9	5	1	268	95	12	29	299	134	722	543
–	–	–	–	–	–	(10)	–	(10)	–	244	–
42	42	15	10	3,071	2,629	(2,894)	(2,228)	234	453	1,162	1,191
348	**300**	**1,866**	**1,491**	**5,169**	**3,001**	**(3,758)**	**(1,633)**	**3,625**	**3,159**	**15,246**	**14,152**
89	77	136	132	1,670	954	(91)	100	1,804	1,263	3,779	3,025
72	70	3	2	53	125	(1)	179	127	376	946	1,499
1	5	1,533	1,107	2,444	1,625	(2,872)	(2,512)	1,106	225	2,108	1,018
168	139	161	222	653	249	(849)	479	133	1,089	7,468	8,104
–	**–**	**–**	**–**	**–**	**–**	**(21)**	**–**	**(21)**	**–**	**95**	**–**
18	**9**	**33**	**28**	**349**	**48**	**76**	**121**	**476**	**206**	**850**	**506**
41	37	(1,518)	(1,097)	627	1,004	(22)	284	(872)	228	(946)	173
356	**307**	**–**	**–**	**121**	**2**	**(202)**	**(81)**	**275**	**228**	**13,049**	**11,379**
(286)	(245)	–	–	(123)	(2)	209	101	(200)	(146)	(10,161)	(8,943)
70	**62**	**–**	**–**	**(2)**	**–**	**7**	**20**	**75**	**82**	**2,888**	**2,436**
(20)	(18)	(7)	(5)	–	–	(1)	(1)	(28)	(24)	(813)	(781)
(11)	(13)	(13)	(9)	(72)	(55)	–	1	(96)	(76)	(679)	(612)
–	–	–	–	–	–	11	–	11	–	42	46
(1)	(2)	48	42	6	(20)	1	(34)	54	(14)	(333)	(452)
38	**29**	**28**	**28**	**(68)**	**(75)**	**18**	**(14)**	**16**	**(32)**	**1,105**	**637**
(3)	(3)	–	–	20	23	53	1	70	21	(82)	(62)
35	**26**	**28**	**28**	**(48)**	**(52)**	**71**	**(13)**	**86**	**(11)**	**1,023**	**575**
–	–	–	–	(58)	–	218	44	160	44	175	57
46	**37**	**45**	**37**	**(43)**	**(52)**	**8**	**(14)**	**56**	**9**	**1,433**	**972**
(8)	(8)	(17)	(9)	(25)	(23)	10	–	(40)	(40)	(328)	(335)
24	**25**	**(417)**	**(309)**	**(22)**	**442**	**316**	**(16)**	**(99)**	**142**	**777**	**1,267**
30	28	40	29	(320)	88	391	52	141	197	963	876
(12)	**(12)**	**(8)**	**(31)**	**(658)**	**(3)**	**(306)**	**(33)**	**(984)**	**(79)**	**(1,329)**	**(378)**
(17)	(12)	(16)	(35)	(1,250)	(9)	81	1	(1,202)	(55)	(1,660)	(404)
12	**13**	**(425)**	**(340)**	**(680)**	**439**	**10**	**(49)**	**(1,083)**	**63**	**(552)**	**889**
(12)	**(13)**	**438**	**344**	**1,114**	**(348)**	**(704)**	**262**	**836**	**245**	**714**	**(515)**

	Commercial Vehicles		Diesel Engines		Turbo Machinery		Industrial Services	
€ million	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Order intake by the segments	**10,103**	**9,434**	**2,619**	**2,203**	**1,498**	**850**	**1,982**	**1,745**
thereof Germany	3,186	2,708	185	361	320	82	283	372
thereof abroad	6,917	6,726	2,434	1,842	1,178	768	1,699	1,373
Intersegment order intake	(13)	(221)	(6)	(45)	(5)	(10)	(6)	(10)
Order intake by the Group	10,090	9,213	2,613	2,158	1,493	840	1,976	1,735
Sales by the segments	**8,685**	**7,377**	**1,802**	**1,666**	**908**	**694**	**1,379**	**1,414**
thereof Germany	2,668	2,290	248	252	138	109	247	301
thereof abroad	6,017	5,087	1,554	1,414	770	585	1,132	1,113
Intersegment transfers	(35)	(83)	(10)	(37)	(22)	(3)	(9)	(11)
Group sales	8,650	7,294	1,792	1,629	886	691	1,370	1,403
Order backlog at Dec. 31	**4,213**	**3,228**	**2,800**	**1,991**	**1,341**	**621**	**2,342**	**2,037**
Headcount at Dec. 31	**34,040**	**33,368**	**6,408**	**6,423**	**3,257**	**2,476**	**4,290**	**4,563**
thereof Germany	19,999	19,941	2,634	2,524	2,352	1,632	2,271	2,736
thereof abroad	14,041	13,427	3,774	3,899	905	844	2,019	1,827
Annual average headcount	**33,835**	**33,645**	**6,378**	**6,650**	**3,053**	**2,458**	**4,483**	**4,696**
Indicators								
Operating profit	670	469	229	117	71	43	119	64
ROS (%)	7.7	6.4	12.7	7.1	7.8	6.2	8.6	4.5
ROCE (%) [2]	26.8	17.9	46.6	22.8	30.5	18.5	31.2	10.9
MAN VA	395	181	175	61	45	17	77	(1)

[1] 2005 incl. MAN DWE
[2] MAN Finance: equity or ROE
[3] P/L of associated affiliate Roland Holding GmbH included in 2006 in Consolidation at €12 million

(c) Segment information by regions

€ million	**Germany**	**Other Europe**	**Other world**	**Total**
2006				
Segment assets at Dec. 31	10,854	3,897	495	15,246
Capital expenditures	1,507	144	9	1,660
Sales	3,394	6,065	3,590	13,049
Headcount at Dec. 31	29,399	18,354	2,537	50,290
2005				
Segment assets at Dec. 31	10,105	3,254	793	14,152
Capital expenditures	283	107	14	404
Sales	3,103	5,162	3,114	11,379
Headcount at Dec. 31	28,978	17,628	2,555	49,161

Others/Consolidation											
RENK		MAN Finance		Corporate Center		Consolidation [2]		Total		Group	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
417	**314**	**–**	**–**	**121**	**2**	**(173)**	**(210)**	**365**	**106**	**16,567**	**14,338**
180	124	–	–	121	2	(124)	(276)	177	(150)	4,151	3,373
237	190	–	–	–	–	(49)	66	188	256	12,416	10,965
(37)	(26)	–	–	(106)	(1)	173	313	30	286	–	–
380	288	–	–	15	1	–	103	395	392	16,567	14,338
356	**307**	**–**	**–**	**121**	**2**	**(202)**	**(81)**	**275**	**228**	**13,049**	**11,379**
130	116	–	–	121	2	(158)	33	93	151	3,394	3,103
226	191	–	–	0	0	(44)	(114)	182	77	9,655	8,276
(20)	(14)	–	–	(106)	(1)	202	149	76	134	–	–
336	293	–	–	15	1	–	68	351	362	13,049	11,379
672	**612**	**–**	**–**	**–**	**–**	**(70)**	**7**	**602**	**619**	**11,298**	**8,496**
1,575	**1,504**	**154**	**122**	**566**	**271**	**–**	**434**	**2,295**	**2,331**	**50,290**	**49,161**
1,493	1,426	88	76	562	264	–	379	2,143	2,145	29,399	28,978
82	78	66	46	4	7	–	55	152	186	20,891	20,183
1,549	**1,500**	**142**	**113**	**554**	**266**	**–**	**442**	**2,245**	**2,321**	**49,994**	**49,770**
38	29	28	28	(68)	(63)	18	(13)	16	(19)	1,105	674
10.5	9.5	–	–	–	–	–	–	–	–	8.5	5.9
28.9	26.4	19.5	20.0	–	–	–	–	–	–	28.0	19.1
23	17	8	9	–	–	–	–	–	–	717	321

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

Munich, February 19, 2007

MAN AG
The Executive Board

Management representation

MAN AG's Executive Board is responsible for the preparation, as well as for the accuracy and validity, of the consolidated financial statements, the group management report and other information stated in this annual report. The consolidated financial statements have been formulated in conformity with the International Financial Reporting Standards (IFRS), whose application is mandatory in the European Union (EU), and, where required, due and reasonable estimates been made. The group management report includes an analysis of the Group's asset and capital structure, financial position and results of operations, as well as further disclosures required under the terms of the German Commercial Code ("HGB").

With a view to ensuring the reliability of data for the preparation of the consolidated financial statements and group management report as well as for internal reporting purposes, an effective internal control system has been installed that includes not only groupwide uniform accounting and risk management guidelines in accordance with KonTraG (German Act on Corporate Control & Transparency) but also an integrated controlling concept as part of a shareholder value approach, besides involving examinations and reviews by Internal Auditing. The Executive Board is thus enabled to identify and counteract significant risks early on.

As resolved by the annual meeting of MAN AG's stockholders, the Supervisory Board has appointed KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Berlin and Frankfurt/Main, as group auditor for fiscal 2006. This group auditor has audited the IFRS-based consolidated financial statements and issued its opinion thereon as reproduced below.

The consolidated financial statements, the group management report, the audit report, and the risk management system have all been discussed in depth together with group auditor staff at the Supervisory Board's Audit Committee meeting as well as at the annual accounts meeting of the plenary Supervisory Board.

Håkan Samuelsson Chairman of the Executive Board	Dr. h.c. Karlheinz Hornung Chief Financial Officer

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 comprehensive income, and notes) and the group management report, all as prepared by MAN AG, Munich, for the fiscal year ended December 31, 2006. The preparation of the consolidated financial statements and group management report in accordance with the IFRS, whose application is mandatory in the European Union, and the additional financial-accounting provisions of Art. 315a(1) 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 asset and capital structure, 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 and consolidation 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.

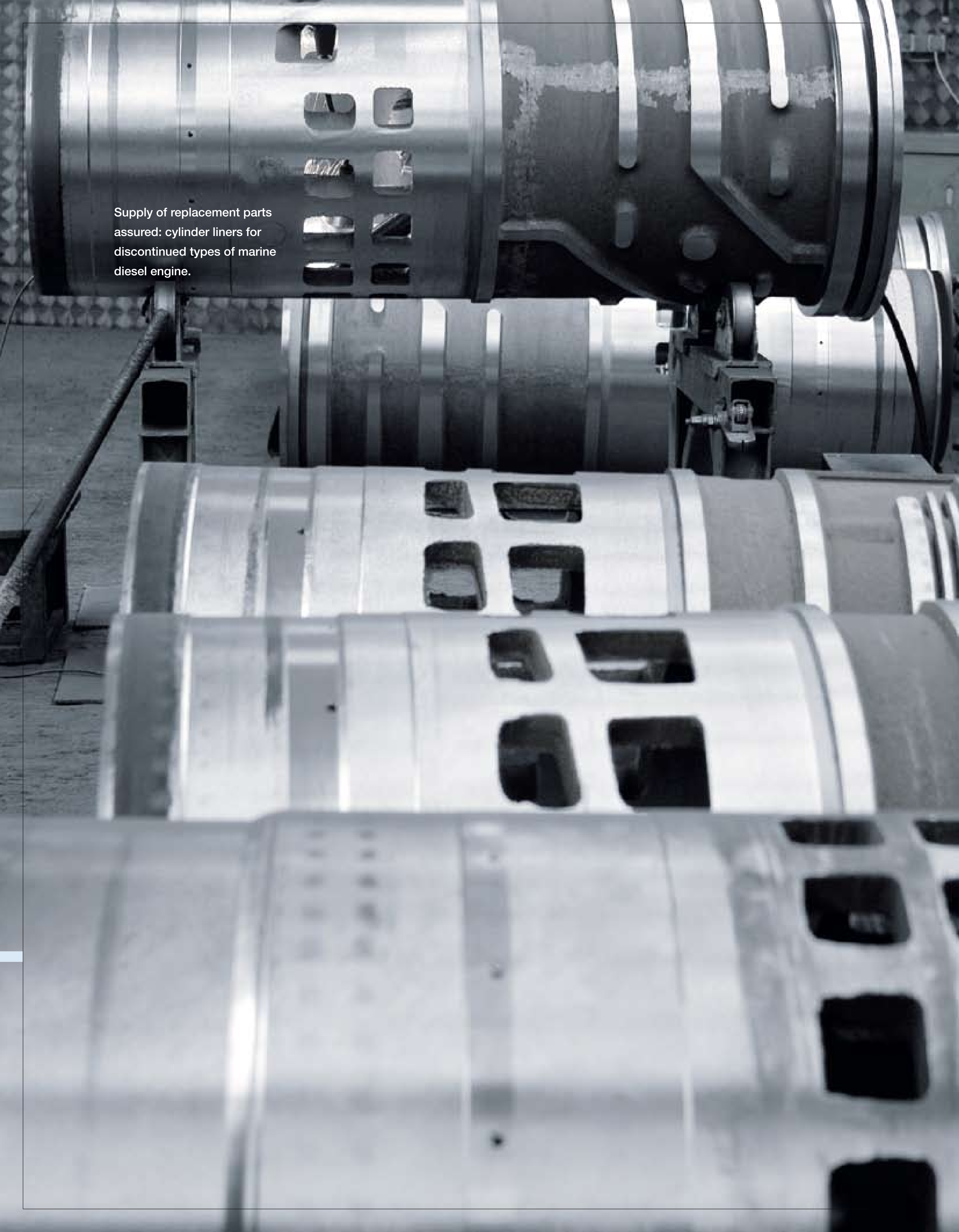
Our audit has not resulted in any objections or exceptions.

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 bylaws, and, with due regard to these standards, regulations and provisions, present a true and fair view of the Group’s asset and capital structure, 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, February 20, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Hoyos	Dr. Dauner
Wirtschaftsprüfer	Wirtschaftsprüfer



Supply of replacement parts assured: cylinder liners for discontinued types of marine diesel engine.

Supervisory Board: memberships in other statutory boards or equivalent

Dr.-Ing. Ekkehard D. Schulz
Düsseldorf,
CEO of ThyssenKrupp AG
Chairman
[a] AXA Konzern AG
Bayer AG
RAG AG (additional vice-chairman)
RAG Beteiligungs-AG (additional vice-chairman)
RWE AG
[b] ThyssenKrupp Elevator AG (chairman)
ThyssenKrupp Services AG (chairman)
ThyssenKrupp Technologies AG (chairman)

Lothar Pohlmann*
Oberhausen,
Chairman of the Group Works Council of MAN AG and the Works Council of MAN TURBO AG,
Sterkrade plant
Vice-Chairman (as from May 19, 2006)

Dr. rer. pol. Gerlinde Strauss-Wieczorek*
Rüsselsheim,
Former trade union secretary of the German Metalworkers Union (IG Metall)
Vice-Chairwoman
(up to March 16, 2006)

Prof. Dr.-Ing. Joachim Milberg
Baldham,
Supervisory board chairman of BMW AG
Vice-Chairman
[a] BMW AG (chairman)
Bertelsmann AG
Festo AG
TÜV Süddeutschland Holding AG
[c] Deere & Company

Jürgen Bänsch*
Augsburg,
Works Council Chairman of MAN Roland Druckmaschinen AG,
Augsburg plant
(up to July 18, 2006)

Michael Behrendt
Hamburg,
CEO of Hapag-Lloyd AG
Executive board member of TUI AG
[a] Barmenia Allgemeine Versicherungs-AG
Barmenia Krankenversicherung a. G.
Barmenia Lebensversicherung a. G.
Esso Deutschland GmbH
ExxonMobil C. E. Holding GmbH
Hamburgische Staatsoper GmbH
[d] CP Ships Ltd. (chairman)

Dr. Dipl.-Ing. Herbert H. Demel
Lannach, Austria,
COO, Vehicle and Powertrain MAGNA International

Detlef Dirks*
Augsburg,
Works Council Chairman of MAN Diesel SE,
Augsburg plant

Jürgen Dorn*
Munich,
General Works Council Chairman of MAN Nutzfahrzeuge AG
[a] MAN Nutzfahrzeuge AG

Klaus Eberhardt
Gerlingen,
CEO of Rheinmetall AG
[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)
Eckart Wälzholz-Junius Familienstiftung
Dietrich Wälzholz Familienstiftung
[d] Nitrochemie AG (president)
Nitrochemie Wimmis AG (president)
Oerlikon Contraves AG (president)

Reinhard Frech*
Augsburg,
Head of Production and Materials Management
Webs/Purchasing MAN Roland
(up to July 18, 2006)
[a] MAN Roland Druckmaschinen AG

Dr.-Ing. Robert Glauber*
Augsburg,
Senior Vice President MAN Diesel SE
(as from Sep. 14, 2006)

Dr. rer. nat. Hubertus von Grünberg
Hannover,
Supervisory board chairman of Continental AG
[a] Continental AG (chairman)
Allianz Versicherungs-AG
Deutsche Post AG
Deutsche Telekom AG
[c] Schindler Holding AG

Jürgen Hahn*
Essen,
Works Council Chairman of
MAN Ferrostaal AG
[a] MAN Ferrostaal AG

Dr. phil. Klaus Heimann*
Frankfurt/Main,
Trade union secretary of IG Metall
[a] Krones AG

Jürgen Kerner*
Augsburg,
1st delegate of IG Metall Augsburg
(as from May 3, 2006)
[a] Eurocopter Deutschland GmbH
IWKA AG
MAN Diesel SE
MAN Roland Druckmaschinen AG
SGL Carbon AG

Dr. jur. Karl-Ludwig Kley
Darmstadt,
Vice-chairman of the management board of
Merck KGaA
[a] Vattenfall Europe AG
WestLB AG

Prof. Dr. rer. pol. Renate Köcher
Konstanz,
General manager of Institut
für Demoskopie Allensbach
[a] Allianz SE
BASF AG
Infineon Technologies AG

Wilfrid Loos*
Dortmund,
general Works Council Chairman of
MAN Truck & Bus Deutschland GmbH
(as from Sep. 14, 2006)
a) MAN Truck & Bus Deutschland GmbH
(Vice-Chairman)

Nicola Lopopolo*
Hannover,
Works Council Chairman
of RENK AG,
Hanover plant

Thomas Otto*
Ottweiler,
Trade union secretary of IG Metall
a) MAN Nutzfahrzeuge AG
MAN Truck & Bus Deutschland GmbH

Dr.-Ing. E. h. Rudolf Rupprecht
Augsburg,
Former CEO of MAN AG
a) SMS GmbH (chairman)
Bayerische Staatsforsten AöR
KME AG
Salzgitter AG
c) Karl Augustin GmbH
Novelis Inc.

Dr. rer. nat. Hanns-Helge Stechl
Mannheim,
Former executive board vice-chairman of
BASF AG

* employee representative

As of February 1, 2007, or resignation date

a) Member in supervisory boards of German companies
b) Member in supervisory boards of German group companies
c) Member in comparable German or foreign boards
d) Member in comparable German or foreign boards (intragroup)

Supervisory Board Committees

Standing Committee
Dr.-Ing. Ekkehard D. Schulz (Chairman)
Dr. jur. Karl-Ludwig Kley
Prof. Dr.-Ing. Joachim Milberg
Thomas Otto
Lothar Pohlmann

Executive Personnel Committee
Dr.-Ing. Ekkehard D. Schulz (Chairman)
Prof. Dr.-Ing. Joachim Milberg
Lothar Pohlmann

Audit Committee
Dr. jur. Karl-Ludwig Kley (Chairman)
Prof. Dr.-Ing. Joachim Milberg
Thomas Otto
Lothar Pohlmann
Dr.-Ing. Ekkehard D. Schulz

Slate Submittal Committee pursuant to Art. 27(3) German Codetermination Act ("MitbestG")
Dr.-Ing. Ekkehard D. Schulz (Chairman)
Prof. Dr.-Ing. Joachim Milberg
Thomas Otto
Lothar Pohlmann

Executive Board: memberships in other statutory boards or equivalent

Dipl.-Ing. Håkan Samuelsson
Munich,
Chairman
a) MAN Roland Druckmaschinen AG
b) MAN Nutzfahrzeuge AG (Chairman)
MAN Ferrostaal AG (Chairman)
MAN Diesel SE (Chairman)
MAN TURBO AG (Chairman)
RENK AG (Chairman)
NEOMAN Bus GmbH (Chairman)

Prof. Dipl.-Ing. (FH) Gerd Finkbeiner
Neusäss
(up to July 18, 2006)
b) MAN Nutzfahrzeuge AG
RENK AG
c) MAN Roland CEE AG, Austria (Chairman)
MAN Roland Inc., USA (Chairman)
MAN Roland Western Europe Group B.V., Netherlands
Votra S.A., Switzerland (Chairman)

Dr. h. c. Karlheinz Hornung
Grünwald
a) MAN Roland Druckmaschinen AG
Demag Cranes AG
b) MAN Nutzfahrzeuge AG
MAN Ferrostaal AG
MAN Diesel SE
MAN TURBO AG
RENK AG
c) MAN Capital Corporation, USA (Chairman)

Dr.-Ing. Georg Pachta-Reyhofen
Niederpöcking
(as from July 1, 2006)
b) MAN Nutzfahrzeuge AG

Dr. jur. Matthias Mitscherlich
Mülheim/Ruhr
a) National Bank AG
Coface Holding AG
Coface Kreditversicherung AG
b) MAN TURBO AG (Vice-Chairman)

Dipl.-Ökon. Anton Weinmann
Landensberg
b) MAN Truck & Bus Deutschland GmbH (Chairman)
RENK AG
NEOMAN Bus GmbH
NEOPLAN Bus GmbH
c) MAN Nutzfahrzeuge Österreich AG (Vice-Chairman)

As of February 1, 2007, or resignation date

a) Member in supervisory boards of German companies
b) Board member, MAN Group Germany
c) Board member, MAN Group international

Executive and Management Boards of group companies

MAN Nutzfahrzeuge AG,
Munich
Dipl.-Ökon. Anton Weinmann,
Chairman
Prof. Dr.-Ing. Franz Breun (up to March 31, 2006)
Dipl.-Kffr. Sabine Drzisga (as from Jan. 1, 2007)
Peter Erichreinecke
Dr.-Ing. Georg Pachta-Reyhofen (up to June 30, 2006)
Dr.-Ing. Karl Viktor Schaller (as from July 1, 2006)
Dipl.-Ing. Lars Wrebo (as from Feb. 20, 2006)

MAN Diesel SE,
Augsburg
Dr.-Ing. Georg Pachta-Reyhofen (as from July 1, 2006)
Chairman
Dipl.-Ing. Fritz Pape (up to Oct. 31, 2006)
Dr.-Ing. Peter Sunn Pedersen
Tage Reinert
Dr.-Ing. Stefan Spindler
Dr.-Ing. Stephan Timmermann

MAN TURBO AG
Oberhausen
Jürgen Maus,
Chairman
Dr.-Ing. Hans O. Jeske
Prof. Dr. rer. oec. Gerhard Willi Reiff

MAN Ferrostaal AG,
Essen
Dr. jur. Matthias Mitscherlich,
Chairman
Dipl.-Kfm. Michael Beck (as from Jan. 1, 2007)
Dipl.-Ing. Jens Gesinn
Helmut Julius (up to Dec. 31, 2006)
Dr.-Ing. Wolfgang Knothe
Dr. rer. nat. Klaus Lesker (as from May 1, 2006)

As of February 1, 2007

Selected consolidated companies

As of December 31, 2006	Shareholding %	Sales € mill.	Headcount at Dec. 31, 2006
MAN Nutzfahrzeuge AG, Munich, Germany	**100**	**6,273**	**12,571**
MAN Nutzfahrzeuge Österreich AG, Steyr, Austria	100	1,380	3,091
NEOMAN Bus GmbH, Salzgitter, Germany	100	1,071	1,499
NEOMAN Bus Vertrieb GmbH, Ismaning, Germany	100	429	287
NEOPLAN Bus GmbH, Stuttgart, Germany	100	260	653
MAN Türkiye A.S., Akyurt Ankara, Turkey	100	328	2,617
MAN-STAR Trucks & Busses Sp. z o.o., Tarnowo Podgórne, Poland	100	306	3,012
MAN Automotive (South Africa) (Pty.) Ltd., Johannesburg, South Africa 1)	100	294	722
MAN Nutzfahrzeuge Vertrieb GmbH, Munich, Germany	100	2,549	4,640
MAN ERF UK Ltd., Swindon, Wiltshire, UK 1)	100	678	971
MAN Nutzfahrzeuge Vertrieb Süd AG, Vienna, Austria	100	815	990
MAN Vehículos Industriales (España) S.A., Coslada (Madrid), Spain 1)	100	625	546
MAN Camions et Bus S.A., Evry Cedex, France	100	456	489
MAN Truck & Bus S.A., Kobbegem (Brussels), Belgium 1)	100	160	121
MAN Last og Bus A/S, Glostrup, Denmark	100	144	188
MAN Nutzfahrzeuge (Schweiz) AG, Otelfingen, Switzerland	100	127	118
MAN Last og Buss A/S, Lorenskog, Norway	100	112	204
MAN Veículos Industriais (Portugal) S.U. Lda., Algés (Lisboa), Portugal 1)	100	77	94
MAN Engines & Components Inc., Pompano Beach, USA	100[2)]	45	43
MAN uzitková vozidla eská republika spol. s r.o., Cestlice, Czech Republic	100	113	79
MAN Kamion és Busz Kereskedelmi Kft., Dunaharaszti, Hungary	100	74	116
MAN Gospodarska vozila Slovenija d.o.o., Ljubljana, Slovenia	100	41	34
MAN-STAR Trucks Sp. z o.o., Nadarzyn, Poland	100	330	296
MAN Úzitkové Vozidlá Slovakia s.r.o., Bratislava, Slovakia	100	41	45
Neoplan Omnibus GmbH, Plauen, Germany	84	92	349
MAN Kamyon ve Otobüs Ticaret A.S. Ankara, Turkey	100	301	157
MAN Diesel SE, Augsburg, Germany	**100**	**725**	**2,609**
MAN Diesel A/S, Copenhagen, Denmark	100	851	2,386
MAN Diesel Ltd, Stockport, UK	100	101	286
MAN Diesel S.A., Villepinte, France	100	151	650
MAN Diesel Singapore Pte. Ltd., Singapore	100	50	154
PBS Turbo s.r.o., Velka Bites, Czech Republic	100	14	147
MAN Diesel Canada Ltd., Oakville, Canada	100	37	33
MAN Diesel North America Inc., New York, USA	100[2)]	23	81
MAN Diesel Australia Pty. Ltd., North Ryde, Australia	100	23	37
Rostock Diesel Service GmbH, Rostock, Germany	100	12	25

As of December 31, 2006	Shareholding %	Sales € mill.	Headcount at Dec. 31, 2006
MAN TURBO AG, Oberhausen, Germany	**100**	**547**	**1,932**
MAN TURBO AG Schweiz, Zurich, Switzerland	100	287	627
MAN TURBO S.r.l. De Pretto, Schio, Italy	100	37	206
MAN TURBO Inc. USA, Houston, USA	100[2]	74	20
MAN TURBO South Africa (Pty) Ltd., Elandsfontain, South Africa	100	11	52
MAN DWE GmbH, Deggendorf, Germany[3]	100	96	420
MAN Ferrostaal AG, Essen, Germany	**100**	**460**	**690**
MAN Ferrostaal Air Technology GmbH, Essen, Germany	100	18	76
MAN Ferrostaal Industrieanlagen GmbH, Geisenheim, Germany	100	128	158
MAN Ferrostaal Power Industry GmbH, Essen, Germany	100	150	76
MAN Ferrostaal México S.A. de C.V., Mexico, D.F., Mexico	100	51	136
DSD de Venezuela C.A., Caracas, Venezuela	100	43	99
DSD Construcciones y Montajes S.A., Santiago, Chile	100	79	133
MAN Ferrostaal do Brasil Comércio e Indústria Ltda., São Paulo, Brazil	100	17	75
MAN Ferrostaal Automotive GmbH, Essen, Germany[1]	100	135	1,468
MAN Ferrostaal Piping Supply GmbH, Essen, Germany[1]	100	130	95
RENK AG, Augsburg, Germany	**76**	**342**	**1,493**
MAN Finance International GmbH, Munich, Germany [1]	**100**	**–**	**154**
MAN Financial Services GmbH, Munich, Germany	100	–	80
MAN Financial Services plc, Swindon,Wiltshire, UK	100	–	26

[1] Sales and headcount include companies under operational management.
[2] Shares held by MAN Capital Corporation, New York.
[3] Shares held by MAN AG.

Glossary

A Accumulated other comprehensive income (OCI)
Other comprehensive income is an equity component that accumulates gains and losses which are recognized in the balance sheet but not yet in the income statement, mainly from the statement at fair value (marking to market) of securities and hedges, and also reflects the changes in actuarial gains/losses from pensions (net after deferred taxes).

C Capital employed (CE)
The MAN Group's CE is determined from how capital employed is funded and breaks down into equity, pension accruals and financial liabilities, less the debt-funded volume of MAN Finance. The operating profit also accounts for that of discontinued operations up to the date of their disposal. A business area's CE is derived from the asset side and comprises its entire assets other than financial and tax assets, less all accruals and liabilities other than financial liabilities, pension accruals and tax liabilities. Since fiscal 2006, prepayments received have only been deducted to the extent that they have already been appropriated to work in process.

Cash earnings
Cash earnings reflect the net cash provided by operating activities; they are the net of operating profit, net interest result, income taxes (excl. deferred), amortization/depreciation/write-down and other noncash income and expenses.

E Equity ratio
Equals the percentage of equity in total capital.

F Fixed-asset-to-equity cover ratio
Indicates the extent to which fixed assets (intangible and tangible assets, investments) are covered by equity.

Free cash flow
Aggregate cash flows from operating and investing activities. The free cash flow shows the financial funds generated by a company within 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.

M MAN value added (MAN VA)
Indicates whether the MAN Group and its business areas have earned their cost of capital and added value beyond: MAN VA = (ROCE – WACC) × CE

Market value
Tantamount to fair value, i.e., the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

N Net liquid assets/Net financial debt
Net liquid assets equal cash and cash equivalents plus securities less financial liabilities. A negative balance is called net financial debt.

O Operating profit
Indicator to assess and control the profitability of the MAN Group's business areas, as a rule the same as EBIT. One-time factors or effects are eliminated in specific cases, hence:
Operating profit = EBIT ± one-time effects

P Percentage-of-completion (PoC) method
Net-revenue recognition method based on IAS 11 and to be applied to customized (or dedicated) manufacturing or construction contracts whose total revenue, costs and percentage of completions are reliably determinable. The profit contributed by the contract must be recognized pro rata of contract work progress (i.e., its PoC) even if the contract has not yet been fully completed and invoiced to the customer.

Projected unit credit (PUC) method
IAS 19 method for measuring pension obligations, according to which expected future pay and pension tises 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:
ROCE = operating profit ÷ CE

ROE (return on equity)
For Financial Services, the ratio of operating profit to equity (excl. OCI).

ROS (return on sales)
The operating profit returned by net sales (a.k.a. EBIT margin): ROS = operating profit ÷ net sales

W

WACC (weighted average cost of capital)
For the MAN Group, set 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 Six-Year Summary

€ million	2006	2005	2004	2003	2002	2001
Order intake	**16,567**	**14,338**	**15,645**	**13,744**	**15,720**	**15,678**
thereof from Germany	4,151	3,373	3,850	3,943	3,862	4,026
thereof from abroad	12,416	10,965	11,795	9,801	11,858	11,652
Order intake by business area						
Commercial Vehicles	10,103	9,434	7,589	6,772	6,525	6,272
Diesel Engines	2,619	2,203	1,872	1,460	1,363	1,489
Turbo Machinery	1,498	850	675	658	539	556
Industrial Services	1,982	1,745	3,508	2,738	3,178	2,737
Others	538	428	2,476	3,076	4,963	5,508
Sales 1)	**13,049**	**11,379**	**14,038**	**13,546**	**16,040**	**16,300**
thereof in Germany	3,394	3,103	3,540	3,792	4,212	4,457
thereof abroad	9,655	8,276	10,498	9,754	11,828	11,843
Sales business area						
Commercial Vehicles 1)	8,685	7,377	6,799	6,707	6,564	6,741
Diesel Engines	1,802	1,666	1,421	1,312	1,408	1,415
Turbo Machinery	908	694	659	567	530	555
Industrial Services	1,379	1,414	3,185	2,880	2,916	2,855
Others	477	377	2,271	2,980	5,469	5,611
Order backlog 2)	**11,298**	**8,496**	**7,954**	**7,363**	**9,597**	**10,313**
thereof Germany	1,820	1,422	1,815	1,891	2,035	2,537
thereof abroad	9,478	7,074	6,139	5,472	7,562	7,776
Headcount 2)	**50,290**	**49,161**	**59,008**	**64,158**	**75,054**	**77,606**
thereof at German companies	29,399	28,978	37,297	41,497	48,863	51,240
thereof at foreign companies	20,891	20,183	21,711	22,661	26,191	26,366
Annual average headcount	49,994	49,770	60,371	65,521	76,346	78,608
Loaned/temporary employees	3,425	2,251	2,317	3,749	2,253	1,715
MAN share data						
Common stock (€) 2)	68.46	45.08	28.34	24.05	13.15	23.75
Common stock, annual high (€)	74.00	45.24	32.23	24.15	30.25	34.20
Common stock, annual low (€)	44.36	29.00	24.33	12.09	10.65	16.96
Common stock, PER 2)	13.6	16.4	13.6	15.6	14.3	23.5
Preferred stock (€) 2)	63.35	41.00	24.75	19.80	9.90	18.00
Preferred stock, annual high (€)	69.78	41.00	29.59	20.49	26.10	26.10
Preferred stock, annual low (€)	40.35	25.44	20.00	10.30	8.20	12.95
Preferred stock, PER 2)	12.5	14.9	11.9	12.9	10.8	17.8
Dividend per share (€) 3)	2.00	1.35	1.05	0.75	0.60	0.60
Earnings per share (EpS) acc. to IAS 33 (€)	5.05	2.75	2.08	1.54	0.92	1.01
Cash earnings per share (€)	6.40	5.90	5.00	5.50	5.50	5.30
Equity per share (€)	22.90	19.50	18.80	18.50	17.90	17.30

Notes on comparability:
The "Others" data includes, up to 2002, the SMS Group; up to 2004, Printing Systems and Financial Services (as from 2005 disclosed as other operating income) and the Industrial Services data; and up to 2004, the Steel Trade operations.

1) As from 2004 changed accounting for the sales of commercial vehicles if subject to buyback obligation: disclosed as operating leases

2) at December 31

3) 2006 incl. €0.50 bonus per share

€ million	2006	2005	2004	2003	2002	2001
Noncurrent assets	6,998	5,689	5,400	3,932	4,318	4,369
Inventories	3,032	3,453	3,393	3,107	3,774	4,618
Other current assets	4,054	3,819	3,825	3,568	4,002	4,204
Securities and cash & cash equivalents	1,162	1,191	761	548	1,277	1,481
Equity [1]	3,779	3,025	2,965	2,784	2,891	2,862
Pension obligations [1]	946	1,499	1,716	1,681	2,053	1,997
Financial liabilities (current/noncurrent)	2,108	1,018	753	987	1,538	1,801
Prepayments received	1,557	1,740	1,399	1,201	1,679	2,582
All other liabilities and accruals	6,856	6,870	6,546	4,502	5,211	5,430
Total assets/Total capital	**15,246**	**14,152**	**13,379**	**11,155**	**13,371**	**14,672**
Net sales	**13,049**	**11,379**	**14,038**	**13,546**	**16,040**	**16,300**
Cost of sales	(10,161)	(8,943)	(11,276)	(11,067)	(13,365)	(13,625)
Gross margin	**2,888**	**2,436**	**2,762**	**2,479**	**2,675**	**2,675**
All other income and expenses, net [2]	(1,783)	(1,762)	(2,205)	(2,096)	(2,351)	(2,311)
Operating profit [3]	**1,105**	**674**	**557**	**383**	**324**	**364**
Net result from one-time effects	–	(37)	–	–	–	–
Net interest expense	(82)	(62)	(115)	(122)	(105)	(151)
EBT	**1,023**	**575**	**442**	**261**	**219**	**213**
Income taxes	(273)	(160)	(122)	(69)	(72)	(62)
Net result of discontinued operations	175	57	(2)	43	0	0
Net income	**925**	**472**	**318**	**235**	**147**	**151**
Minority interests	(7)	(10)	(15)	(8)	(12)	0
Transfer to reserves	(624)	(263)	(149)	(117)	(47)	(63)
Total dividend of MAN AG	**294**	**199**	**154**	**153**	**88**	**88**
EBITDA	**1,433**	**972**	**1,011**	**816**	**892**	**887**
Depreciation/amortization of fixed assets	328	335	402	373	500	471
EBIT	**1,105**	**637**	**609**	**443**	**391**	**416**
Capital outlays and funding						
for tangible and intangible assets	446	376	357	402	463	554
for investments	1,214	28	32	18	62	223
R&D expenditures	396	385	476	520	580	620
Cash earnings	963	876	762	768	885	822
Cash flow from operating activities	777	1,267	946	906	697	697
Cash flow from investing activities	(1,329)	(378)	(341)	(317)	(590)	(574)
Free cash flow	(552)	889	605	589	107	123
Key indicators/ratios						
ROS (%)	8.5	5.9	4.0	2.8	2.0	2.2
ROCE (%)	28.0	19.1	13.0	8.4	7.1	7.7
MAN value added (MAN VA)	717	321	82	**(121)**	–	–

Notes to comparability:
The "Others" data includes, up to 2002, the SMS Group; up to 2004, Printing Systems and Financial Services (as from 2005 disclosed as other operating income) and the Industrial Services data; and up to 2004, the Steel Trade operations.
[1] As from 2005, changed accounting for pensions
[2] Incl. net interest result of Financial Services
[3] As from 2005, Printing Systems and Steel Trade disclosed as discontinued operations

Financial diary

Financial diary of MAN AG	
Report on Q1/2007	May 3, 2007
Annual stockholders' meeting for 2006	May 10, 2007
Report on H1/2007	August 2, 2007
Report on 3Q/2007	November 6, 2007
Annual press conference	March 6, 2008
Analyst conference	March 6, 2008
Publication of annual report on the Internet	March 7, 2008
Annual stockholders' meeting for 2007	April 25, 2008
Report on Q1/2008	May 6, 2008
Report on H1/2008	July 30, 2008

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