
**MAN CONSOLIDATED
FINANCIAL STATEMENTS
2007**

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MAN GROUP: CONSOLIDATED INCOME STATEMENT FOR FISCAL 2007

€ million	Note	MAN Group		Industrial Business *		Financial Services *	
		2007	2006	2007	2006	2007	2006
Net sales		15,508	13,049	15,508	13,049	-	-
Cost of sales		(11,936)	(10,161)	(11,936)	(10,161)	-	-
Gross margin		3,572	2,888	3,572	2,888	-	-
Other operating income	[8]	1,073	609	899	416	174	193
Selling expenses		(911)	(813)	(903)	(806)	(8)	(7)
General administrative expenses		(749)	(679)	(732)	(666)	(17)	(13)
Other operating expenses	[9]	(1,246)	(950)	(1,123)	(805)	(123)	(145)
Net P/L from investees carried at equity	[18]	76	42	71	42	5	-
Income from financial investees	[19]	98	8	99	8	(1)	-
EBIT		1,913	1,105	1,883	1,077	30	28
Interest income	[10]	33	43	33	43	-	0
Interest expense	[10]	(94)	(125)	(94)	(125)	0	0
EBT		1,852	1,023	1,822	995	30	28
Income taxes	[11]	(631)	(273)	(627)	(265)	(4)	(8)
Net result of discontinued operations	[7]	4	175	4	175	-	-
Net income		1,225	925	1,199	905	26	20
Minority interests		9	7	9	7	-	-
Net income after minority interests (EAT)		1,216	918	1,190	898	26	20
Basic (undiluted) EpS of continuing operations in €	[12]	8.24	5.05	8.06	4.92	0.18	0.13

* The breakdown into Industrial Business and Financial Services is not obligatory for IFRS reporting purposes and therefore unaudited.

MAN GROUP: STATEMENT OF CHANGES IN COMPREHENSIVE INCOME 2007

€ million	2007	2006
Currency translation differences	(38)	(30)
Change in fair value of securities and financial investments	454	73
Change in fair value of financial derivatives	15	6
Actuarial gains on pensions	112	35
Actuarial gains on accruals for accumulated termination indemnities	8	0
Defined benefit asset (excess cover) acc. to IAS 19:58	(7)	0
Offset of unrealized gains/losses from divestments	-	28
Proratable deferred taxes	(70)	(11)
Pretax gains/losses directly recognized in equity, net	474	101
Net income	1,225	925
thereof OCI released to net income	4	-
Comprehensive income	1,699	1,026
thereof minority interests	9	7
thereof MAN stockholders	1,690	1,019

For more equity details, see also Note (24) below.

MAN GROUP: CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2007

ASSETS		MAN Group		Industrial Business *		Financial Services *	
€ million	Note	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Intangible assets	[15]	324	439	322	438	2	1
Tangible assets	[16]	1,772	1,649	1,770	1,559	2	90
Investment properties	[17]	37	77	37	42	–	35
Shares in investees carried at equity	[18]	354	196	349	196	5	–
Financial investments	[19]	1,912	1,400	1,910	1,399	2	1
Assets leased out	[20]	1,801	2,395	1,074	1,590	727	805
Deferred tax assets	[11]	522	697	516	692	6	5
Other noncurrent assets	[23]	169	145	143	145	26	0
Noncurrent assets		6,891	6,998	6,121	6,061	770	937
Inventories	[21]	3,279	3,032	3,239	2,983	40	49
Trade receivables	[22]	3,705	2,987	2,557	2,324	1,148	663
Income tax assets		47	25	47	25	–	–
Assets of disposal groups	[7]	13	244	13	244	–	–
Other current assets	[23]	706	798	629	596	77	202
Short-term securities		254	0	254	0	–	–
Cash & cash equivalents		1,266	1,162	1,240	1,147	26	15
Current assets		9,270	8,248	7,979	7,319	1,291	929
		16,161	15,246	14,100	13,380	2,061	1,866

* The breakdown into Industrial Business and Financial Services is not obligatory for IFRS reporting purposes and therefore unaudited.

MAN GROUP: CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2007

EQUITY & LIABILITIES		MAN Group		Industrial Business *		Financial Services *	
€ million	Note	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Capital stock		376	376				
Additional paid-in capital		795	795				
Retained earnings		3,643	2,731				
Accumulated OCI		334	(144)				
Stockholders' equity		5,148	3,758	5,025	3,622	123	136
Minority interests		29	21	29	21	–	–
Total equity	[24]	5,177	3,779	5,054	3,643	123	136
Noncurrent financial liabilities	[25]	405	1,678	149	1,334	256	344
Pension obligations	[26]	132	946	130	943	2	3
Deferred tax liabilities	[11]	451	441	435	408	16	33
Other noncurrent accruals	[27]	467	509	467	509	0	0
Other noncurrent liabilities	[28]	1,019	1,354	1,019	1,352	–	2
Noncurrent liabilities and accruals		2,474	4,928	2,200	4,546	274	382
Current financial liabilities	[25]	1,562	430	1,172	327	390	103
Payables/(receivables) from intragroup financing		–	–	(975)	(1,086)	975	1,086
Trade payables		1,805	1,602	1,560	1,513	245	89
Prepayments received		2,031	1,557	2,029	1,557	2	–
Current income tax liabilities		649	409	649	409	0	0
Liabilities of disposal groups	[7]	–	95	–	95	–	–
Other current accruals	[27]	1,121	1,006	1,112	998	9	8
Other current liabilities	[28]	1,342	1,440	1,299	1,378	43	62
Current liabilities and accruals		8,510	6,539	6,846	5,191	1,664	1,348
		16,161	15,246	14,100	13,380	2,061	1,866

* The breakdown into Industrial Business and Financial Services is not obligatory for IFRS reporting purposes and therefore unaudited.

MAN GROUP: CONSOLIDATED CASH FLOW STATEMENT

€ million	MAN Group		Industrial Business *		Financial Services *	
	2007	2006	2007	2006	2007	2006
EBT	1,852	1,023	1,822	995	30	28
Current income taxes	(548)	(383)	(527)	(378)	(21)	(5)
Cash earnings of discontinued operations	6	15	6	15	-	-
Amortization/depreciation/write-down of noncurrent assets (other than assets leased out)	425	328	424	311	1	17
Change in pension obligations	5	19	5	19	0	0
Undistributed P/L of investees carried at equity	(78)	(44)	(73)	(44)	(5)	-
Dividends received from investees	-	6	-	6	-	-
Other noncash income and expenses, net	(1)	(1)	(1)	(1)	-	-
Cash earnings	1,661	963	1,656	923	5	40
Change in inventories	(303)	(266)	(310)	(225)	7	(41)
Change in prepayments received	465	364	463	364	2	0
Change in trade receivables	(558)	(355)	(263)	(142)	(295)	(213)
Change in trade payables	176	177	18	200	158	(23)
Change in assets leased out	592	(85)	514	40	78	(125)
Change in customer payments for assets leased out	(569)	(78)	(569)	(78)	-	-
Change in income tax assets/liabilities, net	222	305	222	305	0	0
Change in other accruals	93	(47)	93	(40)	0	(7)
Change in other assets	82	(189)	(1)	(138)	83	(51)
Change in other liabilities	282	73	294	72	(12)	1
Elimination of the net gain/loss from fixed-asset disposal	(93)	(57)	(93)	(57)	-	0
Other changes in working capital	59	(28)	65	(30)	(6)	2
Net cash provided by/(used in) operating activities	2,109	777	2,089	1,194	20	(417)
Cash outflow for additions to tangible/intangible assets	(478)	(446)	(475)	(430)	(3)	(16)
Cash outflow for additions to investments	(286)	(1,214)	(284)	(1,214)	(2)	0
Cash inflow from fixed-asset disposal	256	111	256	103	0	8
Net cash used in investing activities of discontinued operations	(2)	(13)	(2)	(13)	-	-
Cash inflow from the disposal of discontinued operations and investees	84	233	84	233	-	-
Net cash used in investing activities	(426)	(1,329)	(421)	(1,321)	(5)	(8)
Free cash flow from operating and investing activities	1,683	(552)	1,668	(127)	15	(425)

€ million	MAN Group		Industrial Business *		Financial Services *	
	2007	2006	2007	2006	2007	2006
Free cash flow from operating and investing activities	1,683	(552)	1,668	(127)	15	(425)
Intragroup dividend distribution	–	–	46	17	(46)	(17)
Dividend payout	(297)	(203)	(297)	(203)	–	–
Change in securities	(254)	170	(254)	170	–	–
Change in noncurrent financial liabilities	(1,255)	1,336	(1,189)	1,312	(66)	24
Change in current financial liabilities	928	(222)	850	(216)	78	(6)
Change in intragroup finance	–	–	(30)	(437)	30	437
Special endowment of pension plans	(702)	(363)	(702)	(363)	0	–
Net cash (used in)/provided by financing activities of discontinued operations	33	(4)	33	(4)	–	–
Net cash provided by/(used in) financing activities	(1,547)	714	(1,543)	276	(4)	438
Net change in cash & cash equivalents	136	162	125	149	11	13
Opening cash & cash equivalents	1,162	1,019	1,147	1,009	15	10
Consolidation-related change in cash & cash equivalents	(51)	(10)	(51)	(2)	0	(8)
Parity-related change in cash & cash equivalents	16	(6)	16	(6)	0	0
Separately capitalized cash & cash equivalents of discontinued operations	3	(3)	3	(3)	–	–
Closing cash & cash equivalents	1,266	1,162	1,240	1,147	26	15

* The breakdown into Industrial Business and Financial Services is not obligatory for IFRS reporting purposes and therefore unaudited.

The cash flow from operating activities includes the cash inflow from interest of €57 million (down from €58 million), as well as the cash outflow for interest of €107

million (down from €126 million) and for income taxes paid at €341 million (up from €113 million).

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 €15.5 billion (up from €13.0 billion) and employing a worldwide workforce of some 55,000 including about 4,000 temporary employees (up from a headcount of 54,000, including around 3,500 temporary employees).

The present consolidated financial statements of MAN AG for the fiscal year ended December 31, 2007, have been prepared according to the provisions of Art. 315a German Commercial Code ("HGB") and hence conform with the International Financial Reporting Standards (IFRS, which includes the International Accounting Standards, or IAS) of the International Accounting Standards Board (IASB) which require application in the European Union under the terms of IAS Regulation (EC) 1606/2002 of the European Parliament and Council. On January 29, 2008, the Executive Board resolved to release the consolidated financial statements for submittal to the Supervisory Board.

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. 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 (€ mill.) unless otherwise stated.

(2) Consolidation and valuation of 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 beneficially controls such entities.

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.

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 any other investees.

(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, 2006	61	91	152
Newly included in fiscal 2007	5	13	18
Excluded in fiscal 2007	3	9	12
Included as of December 31, 2007	63	95	158

No significant shares in subsidiaries were acquired in 2007, the initially consolidated ones primarily referring to newly formed companies or existing ones that started their business operations.

Disposals chiefly included the sale and transfer of MAN Ferrostaal's Steel Trading unit to CCC Steel GmbH & Co. KG, Hamburg. In the new limited partnership, Coutinho & Ferrostaal GmbH & Co. KG, MAN Ferrostaal holds a 33.33-percent interest. In addition, sales subsidiaries of MAN Nutzfahrzeuge in France and Belgium were contributed to MAN Region West B.V., Vianen, Netherlands.

Major investees are listed on pages XX. A complete listing of the MAN Group's shareholdings has been prepared separately and will be published as required by the law.

Consolidation methods

The purchase method is used for capital consolidation. For first-time consolidation purposes, the book values of identified assets and liabilities (including contingent liabilities) of the acquiree are stated at fair value. Any residual positive difference (i.e., the net prorated equity of the acquiree under cost) is allocated to the appropriate MAN division 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 affecting the income statement.

(c) Investees carried at equity

These include associated affiliates and joint ventures and are 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 whenever 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

Transactions in foreign currency are translated at the historical rates. In subsequent periods, monetary assets and liabilities are measured at the current rate, the resulting unrealized gains/losses being recognized in the income statement. Nonmonetary assets or liabilities stated at cost in a foreign currency are translated at the historical rate.

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 en-

vironment 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 equity, the fiscal year's opening and closing balances as well as consolidation group changes are translated at the applicable current rates, while for the remaining 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	
	12/31/2007	12/31/2006	2007	2006
US dollar	1.4721	1.3170	1.3733	1.2573
Pound sterling	0.7334	0.6715	0.6847	0.6825
Danish krone	7.4583	7.4560	7.4512	7.4592
Swiss franc	1.6547	1.6069	1.6439	1.5746
Swedish krona	9.4415	9.0404	9.2480	9.2678
Polish zloty	3.5935	3.8310	3.7848	3.9008
Japanese yen	164.9300	156.93	161.7742	146.05
South African rand	10.0298	9.2124	9.6496	8.5604
Canadian dollar	1.4449	1.5281	1.4697	1.4202

(3) Accounting principles

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 governed by 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 such sales deductions as cash and other discounts, allowances granted to customers, etc. Sales are not recognized unless the amount is reliably determinable and the receivable's collection reasonably certain.

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.

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 revenue from (capital and operating) leases is shown as other operating income. Correspondingly, interest expense from refinancing leased assets is shown as other operating expenses.

(c) Intangible assets

Separately acquired intangible assets are capitalized at purchase cost. According to IFRS 3, intangibles acquired in a business combination are 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 amor-

tized 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 accumulated 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. If tangibles consist of significant identifiable components with different useful lives, such components are depreciated separately.

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.

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. Like other tangibles, investment properties are carried at depreciated cost (i.e., historical cost less accumulated straight-line depreciation over their estimated useful lives, unless land), their fair value being reported in the notes—cf. Note (17)—as determined internally through generally accepted valuation techniques. The useful life of investment properties largely ranges between 5 and 25 years.

(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, at (i) the present value of the minimum lease payments or (ii) the leased asset's fair value, whichever is lower. 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 under 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 value in use 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 as other operating expenses.

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 occurred.

(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 fair value, which generally equals cost, i.e., the transaction price for consideration given or received.

In subsequent periods, straight financial instruments are carried at fair value or amortized cost, depending on the category to which they are assigned.

Loans and receivables held for purposes other than trading are generally carried at amortized cost less write-down. Write-down is charged for impairment losses where signs indicate the existence of any such loss. Within the MAN Group, this asset category primarily includes

trade receivables from customers, the remaining receivables, and long-term loans. Non- or low-interest receivables with a remaining term above 6 months are discounted.

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 (if straight) are carried at amortized cost.

(k) Financial derivatives

Financial derivatives (such as currency forwards or interest rate swaps) are largely used to hedge against currency or interest rate risks. Unless included in hedge accounting, financial derivatives are classified as held for trading.

Financial derivatives are measured at fair (market) value. The fair value of listed derivatives equals their positive or negative market value. Where no market values are available, we determine fair value by using generally accepted methods, such as DCF models or option pricing

techniques. If their fair value is positive, financial derivatives are shown as assets and, if negative, as liabilities.

Fair value changes of derivatives held for trading are recognized in the income statement. For derivative financial instruments that bear a hedging relationship, the changes in fair value in the fiscal year are recognized in accordance with the hedge type.

As and when the IAS 39 hedge accounting criteria are met, MAN designates and documents the hedge as fair value hedge (FVH) or cash flow hedge (CFH).

An FVH hedges capitalized assets, recognized liabilities or unrecognized firm commitments against fair value changes. In this case, changes in the hedge's and the underlying's fair values are recognized in net income. If the hedge is perfect, these fair value changes (recognized in the income statement) virtually balance.

A CFH hedges capitalized assets, recognized liabilities, unrecognized firm commitments or high-probability forecasted transactions against the risks of cash flow tides. The effective part of a derivative's fair value change in a CFH is recognized in a separate equity line (OCI) after deducting deferred taxes, while the ineffective portion of the fair value change is reflected in the income statement. 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, or no longer meeting, 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 (32).

l) Deferred taxes

Deferred tax assets and liabilities are recognized for temporary differences between tax bases and book values, for consolidation transactions recognized in net income, as well as for tax loss carryovers. Deferred taxes are calculated at the tax rates current at December 31 for post-2007 assessment periods, in Germany, at 31.58 percent (down from 39.9).

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 (26).

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. If the effect of interest is material, accruals are discounted at the market rate applicable to comparable risks. Accruals for obligations to be settled in kind are not discounted if valued at current prices.

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. Accruals for restructuring programs are recognized to the extent that a detailed formal restructuring plan has been prepared and communicated to those affected. Accrued costs yet to be billed and other business obligations are provided for at the best estimate of future cash outflows, as a rule the future production cost thereof.

Accruals for impending losses on onerous contracts are recognized if the unavoidable contract performance costs exceed the expected economic benefits from the contract.

(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 classified as discontinued operation if (i) representing a major operation for the MAN Group and (ii) destined for disposal or already sold. Pending the closing of the sale, the assets and liabilities of a discontinued operation are shown as disposal group, valued at the lower of book value or net fair value and reported in separate lines of the balance sheet, cash flow statement, and income statement. Additional comments are made thereon in the notes.

For further details, turn to Note (7).

(p) Estimates and latitude

Preparing the consolidated financial statements requires certain judgment, estimates and discretionary decisions. Our estimates are based on empirical data and other relevant factors, as well as on a going concern. Accounting estimates and assumptions are made to the best of our knowledge and belief, with a true and fair view of the Group's asset and capital structure, financial position and results of operations in mind. Although valuation reasonably allows for identifiable uncertainties, future events may differ from such estimates. Accounting estimates and assumptions are periodically reviewed.

The following accounting estimates as of the closing date are of particular significance:

The goodwill impairment tests to be conducted at least annually require the projection of future cash flows and their discounting. These cash flows are based on forecasts predicated on financial budgets/plans approved by management, other key factors being the weighted average capital cost (WACC) and applicable tax rates.

Certain group companies (mainly the Industrial Services and Turbo Machinery segments) transact business in the form of manufacturing contracts to which the percentage-of-completion (PoC) method is applied. Revenue is

recognized according to contract progress, measured as PoC. Depending on the PoC measurement method used, total contract costs, costs to completion, contract risks and other judgmental factors are among the key parameters of estimates.

Pension and similar obligations are measured using actuarial methods which, in turn, hinge on assumptions of discount rates, expected returns on plan assets, pay and pension trends, and mortality. A changed market or business environment may considerably impact on these actuarial assumptions, actual pension and similar obligations thus differing substantially.

Since the MAN Group operates in quite a number of countries it is also subject to a multitude of tax legislations and a plethora of different tax regulations. Actually expected income taxes as well as deferred tax assets/liabilities must be predicted for each corporate taxpayer, and this again calls for assumptions (such as the interpretation of complex tax regulations and the ability to earn sufficient taxable income, depending on tax type and jurisdiction). Any departure of actual assessments from assumed factors may affect tax expense or deferred taxes.

Depending on the underlying transaction, the measurement of certain other accrued liabilities and similar obligations may be sophisticated and require substantial judgment and a number of estimates. Management estimates of the probability and amount required for the settlement are, *inter alia*, predicated on empirical and available technical data, cost trend predictions, potential warranty claims, and the cash inflow from realization.

(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 endowments provided for the pension plans.

Cash and cash equivalents are the same in both the cash flow statement and the balance sheet and include cash in bank (at segment level, also the receivables from MAN's intragroup finance transactions).

(5) Changed accounting methods, policies and rules Newly applied rules

Fiscal 2007 saw the initial application of IFRS 7, *Financial Instruments: Disclosures*, and the amendments of IAS 1, *Presentation of Financial Statements*. The first-time application of the IFRS 7 and amended IAS 1 rules extended the scope of disclosures for financial instruments presented in the financial statements—see Notes (31) and (32)—and for capital management, cf. Note (24)(f).

Further newly applied rules refer to the Interpretations published by the IFRIC and adopted by the EU. However, the newly applied IFRIC 9, *Reassessment of Embedded Derivatives*, and IFRIC 10, *Interim Financial Reporting and Impairment*, have not impacted significantly on accounting.

IFRIC 7, *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*, and IFRIC 8, *Scope of IFRS 2*, do not affect the MAN Group.

Newly issued rules adopted by the EU but not applied early

On November 30, 2006, the IASB issued IFRS 8, *Operating Segments*, which supersedes the previous IAS 14, *Segment Reporting*. IFRS 8 requires companies to take the management approach to the reporting of financial information on segments. IFRS 8 must be applied to fiscal years commencing on or after January 1, 2009. MAN expects the application of IFRS 8 to potentially impact on the presentation of segment reports.

On November 2, 2006, the IFRIC issued IFRIC 11, *IFRS 2—Group and Treasury Share Transactions*, to be applied to fiscal years commencing on or after March 1, 2007. When applied, the Interpretation is not believed to have any significant effect on the consolidated financial statements.

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

(a) Acquisitions

No major acquisitions of subsidiaries were transacted in 2007.

In 2006

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, Akurdi, Pune, 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.

(b) Stake in Scania AB, Södertälje, Sweden

In January 2007, we bought another 3,200,000 class B Scania shares at a price of €163 million. By swapping in December class B for class A shares, our voting interest rose to 15.57 percent, our stake in the capital stock being 13.23 percent.

(c) Disposals

The majority in the MAN Ferrostaal-managed Steel Trading unit was sold to CCC Steel GmbH & Co. KG, Hamburg, at a price of €117 million, including cash and cash equivalents of €8 million. The transaction gave Steel Trading's competitive position a lasting boost. January 1, 2008, saw the inception of business operations of the new limited partnership, now named Coutinho & Ferrostaal GmbH & Co. KG, in which MAN Ferrostaal holds a 33.33-percent interest. The other joint venturers hold a call option for the remaining MAN-held interest; moreover, MAN holds a put option for the residual interest. Neither option may be exercised before January 1, 2012.

As of December 1, 2007, MAN Nutzfahrzeuge AG contributed MAN Camions et Bus S.A., Evry Cedex, France, and MAN Truck & Bus S.A., Kobbegem, Brussels, Belgium, its two wholly owned sales subsidiaries, to a newly formed company, MAN Region West B.V., Vianen, Netherlands. PON contributed its Dutch sales company, PON Equipment & Power Systems B.V., Almere, Netherlands, to this new company in which MAN Nutzfahrzeuge AG and PON hold a 50-percent stake each. For lack of joint management and control, MAN carries its shares in MAN Region West B.V. as associated affiliate. On or after January 1, 2011, PON may exercise its put option for selling all shares to MAN Nutzfahrzeuge AG, the latter holding, in turn, a call option.

Disposals in 2006

By agreement dated July 18, 2006, MAN AG had 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 percent, Pirson exercised its call option on December 7, 2007.

In fiscal 2003, the MAN Group sold and transferred its 51-percent stake in SMS AG to the Weiss family, which held the remaining 49 percent. The sale and transfer were effected in two lots of 25.5 percent each; the first lot was transferred in fiscal 2003 whereas for the remaining 25.5 percent in SMS GmbH, Siemag-Invest GmbH exercised its call option at the end of September 2007.

(7) Discontinued operations

As part of its portfolio-streamlining move, the MAN Group in fiscal 2006 and 2007 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.

In 2007 discontinued operations included only MAN Ferrostaal's Steel Trading. With effect as of December 28, 2007, MAN Ferrostaal sold the Steel Trading operations, which were carried as discontinued in 2006, to CCC Steel GmbH & Co. KG, a limited partnership based in Hamburg. The worldwide steel-trading operations have since 2008 been continued jointly under the name of Coutinho & Ferrostaal GmbH & Co. KG, in which MAN Ferrostaal now holds a 33.33-percent interest.

The prior-year comparatives additionally include the Printing Systems operations (sold July 18, 2006).

Revenue, income and expenses of the discontinued steel-trading (for the 12-month periods ended December 31, 2006 and 2007) and printing system (for the 6 months ended June 30, 2006) operations were as follows:

€ million	2007	2006
Net sales	1,068	2,136
Expenses, other income (net)	(1,063)	(2,055)
Operating profit	5	81
Net interest expense	(10)	(10)
Income taxes	2	(41)
Net income of discontinued operations	(3)	30
Posttax gain from disposal	7	145
Posttax profit of discontinued operations	4	175

The posttax profit of discontinued operations is the net of that earned by Steel Trading as well as the amount accrued for guaranties and warranties furnished in prior years for divestees.

The tax credit for the earnings from operations discontinued in 2007 amounted to €2 million.

The posttax gain of €7 million from the disposal of discontinued operations is net after tax expense of €4 million.

The balance sheets as of December 31, 2007 and 2006, show the shares in associated affiliate Intermesa Trading S.A., Brazil, as assets held for sale.

The balance sheet as of December 31, 2006, showed €244 million as disposal group (€16 million and €228 million of noncurrent and current assets, respectively); the disposal group's liabilities broke 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 statement at these amounts:

€ million	2007	2006
Cash flow from operating activities	63	(22)
Cash flow from investing activities	(2)	(13)
Cash flow from financing activities	33	(4)

Notes to the income statement

(8) Other operating income

€ million	2007	2006
Nonrecurring income	335	–
Gains from financial instruments	273	172
Income from the release of accruals	127	94
Income from Financial Services	124	128
Income from other trade business	44	59
Gains from the disposal of tangible/ intangible assets	19	20
Miscellaneous income	151	136
	1,073	609

The nonrecurring income reflects the ERF indemnity net after goodwill derecognition.

The gains from financial instruments substantially reflect the results from the valuation of forex positions, as well as from hedges against currency and interest rate risks. Such gains contrast with the (substantially same-amount) losses on financial instruments which are disclosed within other operating expenses.

The income from Financial Services represents that earned from the business of MAN Finance.

(9) Other operating expenses

€ million	2007	2006
Research and development	315	279
Losses on financial instruments	262	191
Nonrecurring expenses	150	–
Provisions in the year	131	152
Expenses from Financial Services	96	69
Allowances for receivables	43	51
Miscellaneous expenses	249	208
	1,246	950

The other operating expenses comprise the expenses not assigned to any of the functional expense categories (primarily to *cost of sales*); R&D expenses reflect only such portion as is neither contract-related production cost nor capitalized development costs.

The nonrecurring expenses were incurred to provide for the Buses restructuring program and also include the goodwill write-down. 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.

The losses on financial instruments and the expenses from Financial Services correspond with other operating income, see Note (8).

(10) Net interest expense

€ million	2007	2006
Interest and similar income	57	58
less interest reclassified into net sales	(24)	(15)
Interest and similar expenses	(107)	(126)
Interest portion of addition to pension accruals	(85)	(84)
Interest income from CTA plan assets	58	36
less interest reclassified into other operating expenses	40	49
	(61)	(82)

The €21 million plunge in net interest expense is an improvement primarily ascribable to lower bank interest charges.

The interest expense reclassified into *other operating expenses* at €40 million (down from €49 million) was incurred for refinancing the leased-asset portfolio of Financial Services. Moreover, interest income of €24 million (up from €15 million) from the temporary investment of sums prepaid by customers on account of long-term contracts was reclassified into *net sales*.

(11) Income taxes

Breakdown of income tax expense:

€ million	2007	2006
Current taxes		
Germany	389	264
abroad	159	119
Deferred taxes		
Germany	115	(116)
abroad	(32)	6
	631	273

The income tax expected for 2007 was calculated by applying a total 39.9 percent (unchanged) to EBT for the assessment period 2007, this percentage being the combined result of 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 Corporate Taxation Reform Act 2008 cuts down as from fiscal 2008 the current tax rate in Germany to 15 percent (plus 5.5 percent solidarity surtax thereon) while the average municipal trade tax burden will rise to 15.75 percent. Therefore, the deferred taxes of German companies were calculated as of December 31, 2007, at a compound tax rate of 31.58 percent (down from 39.9). As the year before, non-German income tax

rate changes had in 2007 no significant effect on the overall tax burden.

For German companies, deferred tax assets of €36 million were capitalized for corporate income and municipal trade tax loss carryovers (down from €181 million), at foreign companies another €18 million for local-tax loss carryovers (up from €15 million). As of December 31, 2007, no deferred tax assets were capitalized for existing loss carryovers of €104 million plus €59 million for temporary differences due to vague realizability. Loss carryovers of €48 million, for which no deferred tax assets were capitalized, are due to expire in the period 2011–2023.

No taxes were deferred in 2007 for the €462 million of unappropriated earnings accumulated at subsidiaries and associated affiliates (up from €166 million).

Reconciliation of expected to actual income tax expense:

€ million	2007	%	2006	%
EBT	1,852	100.0	1,023	100.0
Expected income tax	739	39.9	408	39.9
Tax-free income	(56)	(3.0)	(126)	(12.3)
Foreign tax rate differentials	(118)	(6.4)	(65)	(6.4)
Statement at equity of investees	(32)	(1.7)	(17)	(1.7)
Utilization of loss carryovers and temporary differences not capitalized in prior years, as well as write-up of deferred tax assets	(20)	(1.1)	(14)	(1.4)
Taxes for prior years	48	2.6	102	10.0
Nondeductible business expenses	22	1.2	14	1.4
Change in German tax rates	4	0.2	–	–
Disposal and write-down of goodwill	47	2.6	–	–
Other	(3)	(0.2)	(29)	(2.8)
Actual tax expense	631	34.1	273	26.7

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

€ million	Deferred tax assets		Deferred tax liabilities	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Intangible assets	10	11	76	85
Tangible assets	31	39	114	95
Inventories	40	36	61	56
Receivables and other assets	27	20	126	148
Pension obligations	106	178	8	2
Other accruals	96	77	4	17
Other liabilities	158	140	28	8
Loss carryovers	54	196	-	-
Sundry	-	-	34	30
	522	697	451	441

(12) Earnings per share (EpS)

€ million	2007	2006
Net income after minority interests	1,216	918
thereof posttax profit of discontinued operations	4	175
Net income from continuing operations after minority interests	1,212	743
Number of shares outstanding (million)	147.0	147.0
EpS (€)	8.24	5.05

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 2007 earnings.

No unexercised stock options existed to dilute earnings per share, whether at December 31, 2007 or 2006. If MAN AG's contingent (authorized but unissued) capital is issued, earnings will be diluted in the future.

EpS of discontinued operations came to €0.03 (down from €1.19).

(13) Additional notes to the income statement

Cost of materials		
€ million	2007	2006
Cost of raw materials, supplies, and merchandise purchased	7,870	6,436
Cost of services purchased	682	651
	8,552	7,087

Payments under operating leases

€ million	2007	2006
	17	10

The payments under operating leases include sublease payments of €1 million (up from €0 million)

Personnel expenses

€ million	2007	2006
Wages and salaries	2,460	2,277
Social security, pension expense and related employee benefits	438	501
	2,898	2,778

Thanks to the outsourced funding of pension obligations, pension expense shrank to €133 million (down from €182 million), including €130 million (up from €117 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 €85 million (up from €84 million).

Annual average headcount of continuing operations

	2007	2006
Commercial Vehicles	34,685	33,977
Diesel Engines	6,685	6,378
Turbo Machinery	3,492	3,053
Industrial Services	4,145	4,483
Others	2,266	2,103
	51,273	49,994

The prior-year data has been restated to reflect the inclusion of MAN Finance in Commercial Vehicles.

Amortization/depreciation

€ million	2007	2006
of intangible assets	61	84
of tangible assets	253	246
of investment properties	2	3
	316	333

Write-down

€ million	2007	2006
Goodwill	85	–
Tangible assets	6	11
Financial investees	10	3
Investment properties	8	0
	109	14

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

(14) Total fees of statutory auditor

KPMG's and its subsidiaries' fees recognized as expense for the work as group auditor totaled €9.3 million in the fiscal year (down from €9.4 million), including €4.6 million for the annual audit (up from €4.5 million), €0.4 million for the review of interim reports (down from €0.8 million), €2.5 million for other certification, verification or assessment services (down from €2.9 million), €0.2 million for tax accounting and advisory services (up from €0 million), €1.2 million for sundry services (up from €0.8 million), and €0.4 million for incidentals (virtually unchanged).

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 1/1/2006	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)
Balance at 1/1/2007	43	211	185	439
Consolidation group changes	0	–	0	0
Additions	24	43	0	67
Book transfers	1	0	–	1
Disposals	(2)	0	(34)	(36)
Amortization	(18)	(43)	–	(61)
Write-down	–	–	(85)	(85)
Currency translation differences	0	–	(1)	(1)
Balance at 12/31/2007	48	211	65	324
Gross book value at 12/31/2007	125	483	173	781
Accumulated amortization/write-down	(77)	(272)	(108)	(457)

The amortization charged in the period to finite-lived intangibles (outsourced licenses, software, similar rights and assets, as well as development costs) totaled €61 million (down from €84 million) and is included in the appropriate functional expense categories, mainly cost of sales. The write-down of intangible assets covered the goodwill of Buses, which was written down by €85 million (up from nil).

Analysis of goodwill		
€ million	12/31/2007	12/31/2006
Trucks	1	35
Buses	–	85
Commercial Vehicles	1	120
Medium-speed engines – Diesel Engines	14	14
Turbo Machinery	50	51
	65	185

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 making 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 12.0 percent (up from 11.0). Goodwill is impaired if the segment's value in use is smaller than its book value.

Given the below-budget performance of Buses and based on the value in use in 2007, an impairment loss of a total €85 million was determined.

Moreover, the recovery of damages in the ERF case required the purchase price to be subsequently adjusted, which resulted in the €34 million goodwill to be derecognized.

(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 1/1/2006	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)
Reclassified into investment properties	(69)	–	–	–	(69)
Disposals	(26)	0	(11)	(1)	(38)
Depreciation	(49)	(130)	(67)	0	(246)
Write-down (impairment losses)	(4)	(2)	(5)	–	(11)
Currency translation differences	(1)	(2)	(1)	1	(3)
Reclassified 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)
Balance at 1/1/2007	793	525	207	124	1,649
Consolidation group changes	0	2	(2)	2	2
Additions	32	144	80	152	408
Book transfers	87	68	9	(165)	(1)
Reclassification from/to investment properties	0	–	–	–	0
Disposals	(16)	(8)	(10)	(1)	(35)
Depreciation	(46)	(137)	(70)	–	(253)
Write-down	(3)	(3)	–	–	(6)
Currency translation differences	3	3	0	2	8
Balance at 12/31/2007	850	594	214	114	1,772
Gross book value at 12/31/2007	1,611	1,867	994	114	4,586
Accumulated depreciation/write-down	(761)	(1,273)	(780)	0	(2,814)

The depreciation charged to tangible assets at €253 million (up/down from €246 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.

(17) Investment properties

€ million	2007	2006
Gross book value at January 1	198	–
Accumulated depreciation/write-down	(121)	–
Balance at January 1	77	–
Reclassified from tangible assets	10	80
Additions	3	–
Reclassified into tangible assets	(10)	–
Disposals	(33)	–
Depreciation	(2)	(3)
Write-down	(8)	–
Currency translation differences	0	–
Balance at December 31	37	77
Gross book value at December 31	129	198
Accumulated depreciation/write-down	(92)	(121)

The fair value of investment properties at December 31, 2007, totaled €102 million (down from €110 million). Rental income from investment properties was earned at €4 million (down from €5 million), the direct operating expenses amounting to €1 million (up from €0 million).

(18) Shares in investees carried at equity

The shares in associated affiliates of €327 million (up from €196 million) chiefly cover Roland Holding GmbH, Munich; CEL Consolidated Energy Ltd., Port of Spain, Trinidad & Tobago; and MAN FORCE TRUCKS Private Limited, Akurdi, Pune, India; and MAN Region West B.V., Vianen, Netherlands.

The results at equity of CEL Consolidated Energy Ltd. are based on the financial statements as of October 31, 2007.

The table below summarizes financial information of associated affiliates but states the full amount and not the share proratable to the MAN Group.

€ million	2007	2006
Assets	3,602	2,560
Liabilities	2,589	1,886
Net sales	2,920	2,104
Posttax profit	157	91
Posttax profit (MAN share)	76	42

The shares in joint ventures of €27 million (up from €0 million) represent substantially the interest in the joint venture Coutinho & Ferrostaal GmbH & Co. KG (formerly CCC Steel GmbH & Co. KG).

(19) Financial investees

€1,822 million (up from €1,254 million) of the financial investments of €1,912 million (up from €1,400 million) reflects the 13.23-percent stake in Scania AB (corresponding to a 15.57-percent voting interest), stated at fair value. The stake was purchased at cost of €1,293 million, the difference between cost and fair value being recognized in, and only in, equity.

€43 million of the posttax profit of financial investments represents dividend income, another €33 million being the gain from the Scania AB stock split and repurchase (contained in the nonrecurring result). Moreover, the posttax profit of financial investments includes a €5 million capital gain from the sale of the 2nd batch of the SMS holding.

€10 million (up from €3 million) was charged as write-down to, and recognized in the posttax result from, financial investments.

(20) Assets leased out

€ million	2007	2006
Gross book value at January 1	3,978	3,409
Accumulated depreciation	(1,583)	(1,001)
Balance at January 1	2,395	2,408
Consolidation group changes	(2)	–
Additions	750	964
Book transfers	–	(99)
Disposals	(890)	(445)
Depreciation	(452)	(435)
Currency translation differences	0	2
Balance at December 31	1,801	2,395
Gross book value at December 31	4,412	3,978
Accumulated depreciation	(2,611)	(1,583)

The assets leased out are commercial vehicles operating-leased, or sold with a buyback option, to customers.

Future rents from noncancelable operating leases

€ million	12/31/2007	12/31/2006
Due within one year	260	376
Due after one but within five years	788	985
Due after five years	7	9
	1,055	1,370

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.

The decline is largely attributable to the sale of leased vehicles (from MAN Finance's pool) to Hannover Mobilien Leasing GmbH.

(21) Inventories

€ million	12/31/2007	12/31/2006
Raw materials and supplies	506	487
Work in process and finished products	1,697	1,838
Merchandise	829	548
Prepayments made	247	159
	3,279	3,032

Inventories valued at €7,870 million (up from €6,436 million) were in 2007 recognized as cost of sales.

Inventories of €753 million were written down (up from €682 million), the write-down totaling €60 million (up from €50 million).

(22) Trade receivables

€ million	12/31/2007	12/31/2006
Receivables from customers	2,629	2,240
Receivable under capital leases	707	536
PoC receivables	183	125
Due from investees	186	86
	3,705	2,987

€435 million (up from €164 million) of the receivables has a remaining term above one year, including €51 million (up from €4 million) above five years. The remaining

€3,270 million (up from €2,823 million) now falls due in 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. Receivables of €5 million (down from €9 million) have been assigned as collateral security under customer financing contracts.

The allowances for receivables from customers and investees, as well as for other receivables showed the following movements:

€ million	2007	2006
Balance at January 1	254	426
Added	49	60
Utilized	(21)	(32)
Reversed	(35)	(154)
Exchange rate and other changes	(31)	(46)
Balance at December 31	216	254

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	12/31/2007	12/31/2006
Due within one year	257	189
Due after one but within five years	537	403
Due after five years	24	14
	818	606

Present value of the minimum lease payments due under capital leases: aged breakdown

€ million	12/31/2007	12/31/2006
Due within one year	193	127
Due after one but within five years	415	279
Due after five years	21	8
	629	414

Reconciliation of gross investments to the present value of minimum lease payments

€ million	12/31/2007	12/31/2006
Gross investment in capital leases	818	606
Discount	(96)	(43)
Allowances	(15)	(27)
Net investment in capital leases	707	536
less unguaranteed residual value	(78)	(122)
PV of future minimum lease payments	629	414

The allowances for receivables under capital leases showed the following movements:

€ million	2007	2006
Balance at January 1	27	22
Added	11	20
Utilized	(9)	(8)
Reversed	(14)	(7)
Balance at December 31	15	27

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

€ million	12/31/2007	12/31/2006
Production cost incl. prorated P/L from PoC contracts	1,866	1,502
less amounts billed to customers	(475)	(364)
PoC receivables, gross	1,391	1,138
less prepayments received	(1,208)	(1,013)
	183	125

Further prepayments received at €587 million (up from €283 million) for which no contract costs have been incurred are shown as liabilities.

Sales from PoC manufacturing contracts totaled €897 million (up from €791 million). Orders and parts thereof billed to customers are shown under *receivables from customers*.

(23) Other assets

€ million	12/31/2007	12/31/2006
Financial derivatives	231	88
VAT (input tax) assets	150	113
Due from investees from intragroup finance	78	59
Loans and other receivables from third parties	76	217
Prepaid expenses and deferred charges	62	63
Reserve from employer's pension liability insurance	48	48
Other non-income tax assets	12	11
Sundry current assets	218	344
	875	943

The other assets are disclosed in these balance sheet lines:

€ million	12/31/2007	12/31/2006
Other noncurrent assets	169	145
Other current assets	706	798

Financial derivatives are stated at fair value and mostly hedge against currency risks from customer contracts, as well as other forex positions.

€244 million (up from €145 million) of the other assets has a remaining term above one year, including €55 million (up from €54 million) above five years. The remaining €631 million (down from €798 million) is due in less than one year.

(24) Equity

€ million	Capital stock	Additional paid-in capital	Retained earnings	Accumulated OCI	Stockholders' equity	Minority interests	Total
Balance at December 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 transl. differences	–	–	–	(30)	(30)	–	(30)
OCI: change in unreal. gains/losses	–	–	(22)	125	103	–	103
All other changes	–	–	(9)	6	(3)	(38)	(41)
Balance at December 31, 2006	376	795	2,731	(144)	3,758	21	3,779
Dividend payout	–	–	(294)	–	(294)	(3)	(297)
Net income	–	–	1,212	4	1,216	9	1,225
OCI: currency transl. differences	–	–	–	(38)	(38)	–	(38)
OCI: change in unreal. gains/losses	–	–	–	512	512	–	512
All other changes	–	–	(6)	–	(6)	2	(4)
Balance at December 31, 2007	376	795	3,643	334	5,148	29	5,177

(a) Capital stock, authorized capital moves

MAN AG's capital stock amounts to an unchanged €376,422,400, divided into 147,040,000 fully paid-up non-par bearer shares, these subdivided according to Art. 4(1) of the Memorandum & Articles of Incorporation (the "Bylaws") into 140,974,350 shares of common, and 6,065,650 shares of nonvoting preferred, stock. Each non-par share represents a notional €2.56 interest in the capital stock. According to Art. 4(2) clause 2 of the Bylaws, no stockholder may insist on the issuance of a physical share certificate.

Both stock classes rank for dividend, however, a cumulative preferred dividend of €0.11 per share of preferred stock being payable in advance from net earnings and another €0.11 per share of common stock subsequently. If net earnings do not suffice to pay the preferred dividend, the balance short is payable in arrears (without carrying interest) from the succeeding year's net earnings prior to the distribution of any dividend to common stockholders.

Common stock is voting, preferred stock nonvoting. Pursuant to Art. 140(2) German Stock Corporation Act ("AktG"), this does not apply in cases where (i) the preferred dividend has not or not fully been paid for any one fiscal year and (ii) the arrears plus the full preferred dividend have not been paid in the succeeding fiscal year. In any such case, (i) preferred stockholders have a voting right until such arrears have been duly paid and (ii) the preferred stock is included when calculating any capital majority required by the law or Bylaws. Moreover, preferred stockholders are entitled to vote pursuant to Art. 141(1), (2) clause 1 in conjunction with Art. 141(3) AktG. According to these provisions, a resolution of approval is required of the preferred stockholders when adopting a resolution at a general meeting which would cancel, revoke or limit the preferred dividend, or result in the issuance of preferred shares that rank prior to, or pari passu with, the existing nonvoting preferred stock in terms of distribution of profits or corporate assets.

In all other respects, the same rights and obligations attach to all the shares.

Authorized capital

The annual general 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 ("Authorized Capital 2005").

According to the statement of May 24, 2005, the Executive Board will exercise this authority when increasing the capital against noncash contributions for the purpose of acquiring other enterprises or equity interests therein or other material assets, only up to an aggregate €75,284,480 (20 percent of the current capital stock).

Authority to issue bonds; contingent capital

At their annual meeting on June 3, 2005, the stockholders further authorized the Executive Board (endorsing this resolution on May 10, 2007), 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 in return for cash 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.

This authority also covers the option of guaranteeing bonds issued by other MAN companies and granting MAN AG shares in settlement of the conversion or option rights conferred by such bonds.

Concurrently, by resolution of the annual general meeting of June 3, 2005, the capital stock was 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) holders of convertible or warrant bonds which had been issued by MAN AG or MAN companies by dint of the resolution of authorization of June 3, 2005 (endorsed by resolution of

the annual general meeting of May 10, 2007) in return for cash, 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 ("Contingent Capital 2005").

Stock repurchase

The authority conferred by resolution of the annual general meeting of May 19, 2006, to repurchase treasury stock was superseded at the effective date of the resolution of the annual general meeting of May 10, 2007.

The resolution adopted by the stockholders at their annual meeting on May 10, 2007, authorized the Executive Board, after obtaining approval from the Supervisory Board, to repurchase on or before November 9, 2008, once or several times MAN AG common and/or nonvoting preferred stock. The authority is capped throughout at an aggregate 10 percent of the capital stock, any other treasury shares held by, or assigned under the terms of Arts. 71d and 71e AktG to, the Company always being counted toward this cap. 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.

Such treasury shares may be acquired via stock exchange or by public offering to the holders of the respective stock class. If acquired via a stock exchange, the purchase price excluding incidentals may not be more than 10 percent above or below the price quoted for the respective stock class at the opening auction of that market day's Xetra trading (or any comparable successor system). In a public offering, the bid price or bid price range per share (excluding purchase incidentals) may not be more than 20 percent above or below the closing price quoted for the respective stock class in Xetra trading (or any comparable successor system) on the third market day prior to the bid's public announcement. If the total stock offered for repurchase exceeds MAN's bid volume, the share offers shall be accepted pro rata. The preferential acceptance of small share numbers may be stipulated to the legally permitted extent, however, not in excess of 100 shares offered by any one stockholder for repurchase by MAN.

The Executive Board is further 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. This option shall, in particular, also apply in cases where the repurchased common stock (i) is sold at a price that is not significantly below market, and/or (ii) is used as consideration in a business combination or for the acquisition of other enterprises or any equity interest therein, and/or (iii) is used to settle or satisfy conversion or option rights granted to holders of convertible or warrant bonds which had been issued by MAN AG or MAN companies. The shares transferred by dint of this authority may not exceed an aggregate 10 percent of the capital stock if used to settle or satisfy conversion or option rights granted while excluding the stockholders' statutory subscription right pursuant to Art. 186(3) clause 4 AktG. Such shares shall be counted toward this cap as (i) by direct or indirect application of this provision were issued or sold up to the date of their use while this authority was in force and effect, and (ii) were issued or are issuable at the date of their use in conformity with the terms of convertible or warrant bonds floated in accordance with this provision.

As resolved by the annual general meeting of May 10, 2007, the Executive Board is further authorized, subject to Supervisory Board approval but without any further vote by a stockholders' meeting, to redeem and withdraw any treasury shares of common and/or nonvoting preferred stock.

(b) Reportable stakes in MAN AG

Pursuant to Sec. 21(1) clause 1 German Securities Trading Act ("WpHG"), Wolfsburg-based Volkswagenwerk AG notified MAN AG in February 2007 that its voting interest in MAN AG had crossed above the 25-percent mark, then coming to 29.9 percent. No further direct or indirect shareholdings in MAN AG which equal or exceed 10 percent of the voting rights have been reported or are known to us.

(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 €581 million (up from €547 million), as well

as MAN AG's net earnings of €463 million (up from €294 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 Executive and Supervisory Boards will propose to the annual general meeting that per share a total cash dividend of €3.15 (up from €2.00) be distributed, corresponding to a total dividend payout of €463 million (up from €294 million).

(d) Accumulated other comprehensive income

€ million	12/31/2007	12/31/2006
Currency translation differences	(63)	(29)
Securities and financial investments	534	80
Financial derivatives	17	2
Actuarial gains/losses from pensions	(176)	(288)
Actuarial gains/losses from accruals for accumulated termination indemnities	(17)	(25)
Defined benefit asset (IAS 19:58)	(7)	0
Proratable deferred taxes	46	116
	334	(144)

€37 million of the changes in OCI refers to OCI changes of associated affiliates (up from €16 million).

Out of the hedges disclosed in 2006 in this equity line at a total €2 million, €5 million was realized upon recognition in net income through sale or reclassification, another €20 million refers to the remeasurement to fair value after marking financial instruments to the market.

(e) Minority interests

Most of the minority interests originate from RENK AG, Augsburg, in whose capital stock MAN holds a 76-percent stake.

(f) Capital management

MAN AG controls its capital for maximum ROCE and this includes optimizing the debt-equity ratio.

For management and controlling purposes, the Group's capital employed (CE) comprises its equity, pension ob-

ligations and financial liabilities. Equity breaks down into capital stock, additional paid-in capital, and retained earnings.

€ million	12/31/2007	12/31/2006
Equity	5,177	3,779
Pension obligations	132	946
Financial liabilities	1,967	2,108
Total capital employed	7,276	6,833

In fiscal 2007, equity climbed 37 percent, mainly thanks to the higher retained earnings. Pension obligations sank 86 percent as their full external funding progressed, financial liabilities by another 7 percent. On a net basis, CE rose in 2007 by 6 percent or €443 million.

MAN AG's articles of association or bylaws do not require any capital moves.

(25) Financial liabilities

€ million	12/31/2007	12/31/2006
Syndicated loan for Scania stock purchase	1,000	1,170
Bonds	239	302
Commercial paper	266	87
Due to banks	462	549
	1,967	2,108

Financial liabilities are disclosed in the following balance sheet lines:

€ million	12/31/2007	12/31/2006
Noncurrent financial liabilities (due after one year)	405	1,678
thereof remaining term >5 years	34	8
Current financial liabilities (due within one year)	1,562	430

On September 17, 2006, MAN AG signed a €11 billion credit facility agreement with a banking syndicate (led by Citygroup, Global Markets Limited, The Royal Bank of Scotland plc, Bayern LB, WestLB AG, and Handelsbanken Capital Markets) to fund the planned Scania acquisition. By December 31, 2006, a facility portion of €1,170 million had been utilized to purchase Scania stock. After the January 23, 2007 withdrawal of the public offering, the unutilized balance of this facility expired. As of December 31, 2007, a €1,000 million floating-rate portion of the syndicated facility was utilized and carried interest at the annual rate of 4.948 percent (up from 4.078).

In December 2003, MAN Financial Services plc, Swindon, UK, floated a €300 million 5.375-percent bond issue and, as of November 27, 2007, repurchased €60 million thereof at par, reducing the total par value of bonds outstanding to €240 million. As of December 31, 2007, the book value (including the remeasurement to fair value from hedge accounting for interest rate hedges) amounted to €239 million (down from €302 million), the fair value to €243 million (down from €308 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 €91 million (up from €25 million) carries interest at fixed rates, ranging between 3.25 and 5.09 percent. The remaining accounts due to banks bear interest at variable rates. The 2007 interest rates in Euroland ranged between 3.73 and 4.95 percent, those for non-euro currencies depending on local rate levels.

(26) Pension obligations

Pension accruals break down as follows:

€ million	12/31/2007	12/31/2006
Pension obligations in Germany	120	929
Pension obligations abroad	12	17
	132	946

(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 2007 saw MAN's added steps toward funding the capital for German pension obligations by transferring a net €699 million as endowment to MAN Pension Trust e.V., a membership corporation under German law.

On November 30, 2007, a pension obligation volume of €850 million for around 26,000 pensioners was assigned to MAN Pensionsfonds AG (a company newly incorporated by MAN AG) and fully funded externally. However, since the group companies remain liable under a guaranty of collection upon assignee default, the pension obligations assigned and the related trust assets transferred to MAN Pensionsfonds AG continue to be recognized netted in the consolidated balance sheet.

Under irrevocable agreements, these trust assets are exempt from recourse or attachment by any MAN compa-

ny (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, security trustees independent of MAN have been appointed. MAN Pensionsfonds AG is subject to the supervision by BaFin, the German Federal Financial Supervisory Authority.

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 for internal use.

Some non-German subsidiaries in the UK and Switzerland have incurred defined benefit obligations (DBO), all of which are exclusively plan-funded. The pension plans in Great Britain are no longer available to new participants. Further subsidiaries in France, Austria, Poland, and the Philippines maintain accrual-funded defined benefit plans that involve minor obligations only.

Obligatory contributions to defined benefit plans are expected to amount in 2008 to €7 million and €8 million at the German and foreign pension plans, respectively.

Plan asset portfolio structure

€ million	Germany		Abroad	
	2007	2006	2007	2006
Bonds	1,161	506	201	186
Equities	216	164	173	191
Real estate	–	–	27	24
Other	4	–	8	8
Total plan assets	1,381	670	409	409

In fiscal 2007, plan assets returned 1.69 percent in Germany, 6.95 in Great Britain, and 8.40 in Switzerland.

(b) Funding status

Present value of the DBO € million	Germany		Abroad	
	2007	2006	2007	2006
Present value of the DBO at January 1	1,599	1,913	425	388
Consolidation group changes	(13)	(317)	–	(110)
Plan reclassification	–	–	–	147
Current service cost	31	29	10	10
Interest cost	67	65	18	19
Past service cost	–	7	5	–
Actuarial losses/(gains)	(105)	(25)	(22)	(12)
Pension payments	(78)	(75)	(17)	(21)
Contributions by beneficiaries	2	–	4	4
Exchange rate changes, other	(2)	2	(27)	0
Present value of the DBO at December 31	1,501	1,599	396	425

Fair value of plan assets € million	Germany		Abroad	
	2007	2006	2007	2006
Fair value of plan assets at January 1	670	501	409	301
Consolidation group changes	–	(150)	–	(111)
Plan reclassification	–	–	–	143
Expected return on plan assets (ROPA)	35	15	23	21
Difference between expected and actual ROPA	(23)	(6)	8	3
Current contributions by employers	5	0	9	10
Special endowment by employers	702	310	–	53
Contributions by beneficiaries	2	–	4	4
Pension payments	(10)	–	(16)	(20)
Exchange rate changes, other	–	–	(28)	5
Fair value of plan assets at December 31	1,381	670	409	409

Funding level and pension accruals:	Germany		Abroad	
	2007	2006	2007	2006
€ million				
Unfunded DBO	61	315	8	4
Plan-funded DBO	1,440	1,284	388	421
Total DBO	1,501	1,599	396	425
Plan assets at fair value	(1,381)	(670)	(409)	(409)
Funding level at December 31	120	929	(13)	16
Defined benefit asset	–	–	18	–
Unrecognized plan assets	–	–	7	1
Pension accruals at December 31	120	929	12	17

The present value of the DBO as well as the plan assets are based on the following parameters:

	Germany		Abroad	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Interest rate	5.25 %	4.25 %	3.5 % - 6.1 %	3.0 % - 5.7 %
Pension rise	2.0 %	1.5 %	0.5 % - 3.5 %	0.5 % - 3.0 %
Pay rise	2.5 %	2.5 %	2.0 % - 4.5 %	1.4 % - 4.5 %
Expected ROPA	4.25 %	4.25 %	3.0 % - 7.2 %	3.0 % - 6.8 %

Prof. Dr. Klaus Heubeck's mortality tables 2005 G (unchanged) underlie the biometrical parameters for pensions in Germany as of December 31, 2007.

In Germany, the expected return on plan assets is based on the interest rate for matching-maturity Bunds plus standard risk premiums according to asset classes. Abroad, ROPA is determined by the local actuary.

(c) Pension expense

Pension expense breaks down as follows:

€ million	2007	2006
Current service cost	41	39
Past service cost	5	7
Interest cost	85	84
Expected return on plan assets	(58)	(36)
	73	94

(d) Gains/losses recognized as OCI

€ million	2007	2006
Actuarial (gains)/losses at Jan. 1	288	380
Changes in the fiscal year	(112)	(35)
Consolidation group changes	–	(57)
Actuarial (gains)/losses at Dec. 31	176	288

(27) Other accruals

€ million	12/31/2006	Consol. group change, currency transl.	Utilization	Provision in 2007	Release	Reversed discount	12/31/2007
Warranties	485	5	(211)	337	(88)	6	534
Unbilled costs from contracts invoiced	212	(12)	(149)	169	(11)	0	209
Other business obligations	382	(34)	(46)	185	(117)	0	370
Obligations to personnel	260	1	(55)	31	(15)	6	228
Remaining accruals	176	(2)	(59)	205	(73)	0	247
	1,515	(42)	(520)	927	(304)	12	1,588

The *other accruals* are disclosed in these balance sheet lines:

€ million	12/31/2007		12/31/2006	
	noncurrent	current	noncurrent	current
Warranties	221	313	178	307
Unbilled costs from contracts invoiced	40	169	97	115
Other business obligations	20	350	24	358
Obligations to personnel	183	45	206	54
Remaining accruals	3	244	4	172
	467	1,121	509	1,006

The warranty accruals provide for implied and express warranties, as well as accommodation/goodwill warranties voluntarily extended to customers. Warranty accruals are utilized when the warranty claim takes effect, which may be anytime during the warranty period. 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 on onerous contracts and to buyback guaranties.

The obligations to personnel exist for accrued employment anniversary allowances, termination indemnities, and preretirement part-time work, as well as statutory termination benefits.

€52 million of the *remaining accruals* provides for the restructuring within Buses.

(28) Other liabilities

€ million	12/31/2007	12/31/2006
Deferred income from assets leased out	1,212	1,780
Liabilities to personnel	428	357
Liabilities for non-income taxes	235	138
Financial derivatives	126	82
Due to investees from intragroup finance	71	235
Accrued charges	36	53
Remaining liabilities	253	149
	2,361	2,794

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 €1,163 million, this deferred income includes the full purchase price paid by customers (down from €1,310 million) and at €49 million (down from €470 million), the refinancing of the leases through nongroup financing companies. The slump is basically attributable to the sale of leased vehicles from the MAN Finance pool to Hannover Mobilien Leasing GmbH.

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 substantially hedge against currency risks in customer contracts, the negative market values contrast with opposite effects in the balance sheet lines of the underlyings.

The accounts due to investees plunged mainly as the SMS stake was sold.

Non-income tax liabilities soared primarily when the sale of leased vehicles from the MAN Finance pool generated VAT payables.

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

€ million	12/31/2007	12/31/2006
Other noncurrent liabilities	1,019	1,354
Other current liabilities	1,342	1,440

The other noncurrent liabilities have a remaining term above 1 but under 5 years.

Other information

(29) Contingent liabilities

€ million	12/31/2007	12/31/2006
Guaranties and suretyships	255	472
Buyback guaranties	214	192
Warranty/indemnity contracts	0	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 year-on-year decrease is largely attributable to the scheduled downscaling of our liability for third-party debts and former investees.

The contingent liabilities under guaranties/suretyships and warranty/indemnity contracts include €8 million (down from €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 €214 million (up from €192 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, certain 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.

MAN Nutzfahrzeuge AG and MAN Finance have incurred obligations to guarantee minimum yields or, respectively, provide additional funds pro rata when certain associated affiliates incur losses.

At present, there are no indications that any of the aforesaid obligations must actually be met.

The obligations under tangible-asset purchasing contracts totaled €123 million at December 31, 2007.

(30) Other financial obligations

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

€ million	12/31/2007	12/31/2006
Investment leases,		
due within one year	15	15
after one but within five years	50	53
after five years	31	42
	96	110
Rental obligations under property leases,		
due within one year	220	64
after one but within five years	425	182
after five years	178	179
	823	425

The increase in rental obligations is largely due to the sale of leased vehicles from MAN Finance's fleet to Hannover Mobilien Leasing GmbH. These obligations contrast with future cash inflows from subleases at €267 million (up from €0 million).

(31) Additional disclosures of straight financial instruments

This Note additionally highlights the significance of straight financial instruments and discloses further details of FI-related balance sheet and income statement lines.

The table below contrasts the book and fair values of financial instruments.

€ million	12/31/2007		12/31/2006	
	Book value	Fair value	Book value	Fair value
Assets				
Trade receivables	2,998	2,998	2,451	2,451
Receivables under capital leases	707	698	536	525
Cash and cash equivalents	1,266	1,266	1,162	1,162
Other financial assets	2,683	2,683	1,952	1,952
available for sale	2,182	2,182	1,400	1,400
at fair value recognized in net income	142	142	77	77
derivatives in hedges	89	89	11	11
Other receivables and assets	270	270	464	464
Liabilities				
Trade payables	1,805	1,805	1,602	1,602
Financial liabilities	1,967	1,971	2,108	2,113
Other financial debts	302	302	451	451
at fair value recognized in net income	100	100	74	74
derivatives in hedges	26	26	8	8
other liabilities	176	176	369	369

Fair values are determined on the basis of current market data, using the valuation techniques described below.

Cash and cash equivalents, trade receivables, other financial assets, trade payables and other financial debts mostly have a short remaining term. Therefore, their current book value substantially equals fair value.

The fair value of receivables under capital leases corresponds to the present value of cash flows for such assets, with due regard to current interest rates and in line with current changes in market and counterparty conditions and predictions.

The fair value of nonlisted bonds, liabilities to banks and other financial debts corresponds to the present value of the cash outflows required for settlement, discounted at fair market rates for matching maturities.

The financial assets available for sale include OCI of €90 million (up from €73 million), recognized at cost. They represent shares in nonlisted enterprises for whose valuation the DCF method could not be applied for lack of predictable cash flows.

The book values of financial instruments, broken down according to IAS 39 measurement criteria, are shown in the table below.

€ million	12/31/2007	12/31/2006
Financial assets		
Loans and receivables	3,268	2,915
Trade receivables	2,998	2,451
Other assets	270	464
Available for sale	2,182	1,400
Financial investments and securities	2,169	1,400
Other assets	13	–
At fair value recognized in net income	231	88
Cash and cash equivalents	1,266	1,162
Financial liabilities		
Financial liabilities stated at cost	3,948	4,079
Trade payables	1,805	1,602
Financial liabilities	1,967	2,108
Other liabilities	176	369
At fair value recognized in net income	126	82

Breakdown of net gains/losses from financial instruments:

€ million	2007	2006
Loans and receivables	(60)	(63)
Financial assets available for sale	109	6
Financial liabilities stated at cost	(9)	11
Financial assets/liabilities at fair value recognized in net income	19	(1)

The net gains or losses from loans and receivables largely reflect changes in allowances/write-down, currency translation, as well as income from bad-debt collections and from write-up.

The net gains or losses from financial assets available for sale mainly include the net result of financial investees.

The net gains or losses from financial liabilities stated at cost chiefly originate from currency translation, as well as from income from liability derecognition.

The net gains or losses from financial assets/liabilities at fair value recognized in net income reflect changes in

fair value of financial derivatives outside hedge accounting.

The interest income/expense earned or incurred in connection with financial assets and liabilities break down as follows:

€ million	2007	2006
Interest income	231	224
Interest expense	(187)	(178)

Interest income from impaired financial assets is insignificant given the short periods to expected receipt of payment.

(32) 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 contracts hedges against all major 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 standard-production 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 (such as the Danish krone or Polish zloty) are hedged

in isolated cases only. Equity interests or equity-type loans in foreign currency are not subject to any hedging obligation.

Even though we endeavor to fully hedge all forex positions, open currency positions as of the balance sheet date are virtually unavoidable, such as in pound sterling. If the value of all foreign currencies suffered a 10-percent decline versus the euro, the following risks (negative values) and rewards (positive values) would ensue:

€ million	2007	2006
Firm contracts/commitments	(2)	14
Forecasted transactions	(10)	86

Our hedge accounting breaks down into cash flow hedges (CFHs) and fair value hedges (FVHs).

In the year under review, unrealized gains of €19 million (before taxes) from the remeasurement of derivatives in CFHs were recognized in, and only in, other comprehensive income (OCI), another €5 million of gains was recycled from OCI to net sales.

The losses on hedging instruments used in FVHs came to €54 million (down from a €14 million gain), the gains from the related underlyings to €55 million (up from a €15 million loss).

(c) Interest rate risks

For liquidity generation and investment purposes, the MAN Group holds assets and liabilities exposed to interest rate risks. Prominent among such assets are customer finance transactions, particularly leases mostly entered into at fixed rates. Among the liabilities exposed to interest rate risks are a fixed-income euro bond issue, a variable-rate portion of the loan facility for the Scania stock acquisition, as well as other fixed- and floating-rate financial liabilities.

Rate-sensitive financial instruments may be exposed to either a fair value or a cash flow risk. Fair value risks where a financial instrument's value varies according to market rate swings mainly affect investments in securities (investment funds or unit trusts). Income from this type of investment is exposed to non-quantifiable money-market interest rate risks. In contrast, cash flow risks

originate from the variation of future interest payments in response to rate trends. They are centrally analyzed and managed through what-if scenarios based on the following assumptions:

Since market rate changes impact on variable-rate straight financial instruments, as well as on interest rate derivatives which are not part of a hedge according to IAS 39, they also affect future interest payments and are therefore included in the calculation of cash flows at risk.

Fixed-income straight financial instruments carried at amortized cost, as well as fixed-rate financial instruments in a fair value hedge, are not exposed to interest rate risks since interest-related changes in the value of both the underlying and the hedge are substantially offset in the income statement of the same period.

For rate sensitivity calculation, a parallel shift by 100 basis points of the yield curve is assumed. This scenario would produce the following risks (negative values) or rewards (positive values):

€ million	12/31/2007	12/31/2006
Floating-rate straight financial instruments	(10)	(15)
Financial derivatives	21	–

Among the tools used to contain the interest rate risks emanating from straight financial instruments are derivatives, such as interest rate swaps, forward swaps, caps, and floors; their volumes and maturities are determined to match the customer portfolio's in accordance with the envisaged hedging level.

Where the derivatives are not intended for hedging the risks from specific financial instruments but entire portfolios, the hedge accounting criteria of IAS 39 are not met but the interest rate risks are nonetheless economically contained.

(d) Stock price risks

Material among the *other investments* in equities is the 13.23-percent stake in Scania AB. The market value of this long-term investment as of December 31, 2007, was €1,822 million (up from €1,254 million). A 20-percent share price slump would slash the investment's value by €364 million (up from €251 million).

(e) Default risks

From the MAN Group's vantage point, default risks are defined as the risk that a counterparty fails to perform its contractual obligations, thus causing a financial loss. The term default risk covers not only the direct nonpayment risk but also the credit risk from a deteriorated credit standing, which may be compounded by an accumulation or aggregation of individual risks.

Given its business operations and financing/leasing activities, MAN is exposed to default risks, which are capped by the aggregate total book value of capitalized financial assets, see Note (31). The following steps are taken to mitigate such risks.

When centrally investing any available liquidity, the centralized cash management system carefully selects investment types, banks and financial institutions, focusing on a safe-investment strategy.

In business operations, country and counterparty risks are constantly assessed locally; on this basis, risks are mapped and profiled. A/R balances are throughout monitored and watched locally. Nonpayment risks are adequately allowed for.

In project business, nonpayment risks are reduced to a minimum by insisting on downpayments and the provision of collateral security.

In our financing and leasing activities, default risk management targets exposed portfolios. Customer credit standing is regularly rated by assigning risk classes to each customer, based on information furnished by local Financial Services companies and standard external sources. In addition, by nonrecourse factoring of parts of the A/R portfolios, the maximum loss on default is downscaled even further. Collateral is as a rule furnished by assigning the financed vehicle as security.

With a view to reducing the associated nonpayment risks, financial derivatives are throughout contracted with banks of prime standing.

The table below provides details of receivables not specifically allowed for or written down though past due:

€ million	12/31/2007		12/31/2006	
	Due from customers and investees	Receivables under capital leases	Due from customers and investees	Receivables under capital leases
30 days or less	451	7	296	4
31–90 days	181	2	138	2
91–180 days	45	1	73	2
181 days to 1 year	39	2	39	–
>1 year	43	–	64	–

A portfolio allowance accounts for the default risks in these receivables.

As of the balance sheet date, there was no indication that any of the receivables either not specifically allowed for, written down or then past due, will go bad.

(f) Liquidity risk

This type refers to the risk that financial obligations can no longer be properly met.

The MAN Group's finance management system with ongoing monitoring and control of cash inflows and outflows is an effective tool for liquidity risk management.

The primary sources of funds are business operations and external finance. The primary uses of funds include the financing of working capital, capital expenditures and investments as well as the provision of sufficient funds for the leasing and financing activities.

As required by IFRS 7, the details in the table below are confined to cash outflows for contractual payments of principal and interest for straight financial instruments, as well as for financial derivatives. Where no fixed due date exists, the liability is related to the earliest possible maturity. Floating-rate interest payments are based on the terms current at December 31.

€ million	2008	2009	2010	2011	2012	>2012
Financial liabilities	1,585	58	262	78	25	37
Trade payables	1,792	10	–	–	–	3
Other financial debts	171	5	–	–	–	–
Financial derivatives	96	13	7	5	3	2
Total	3,644	86	269	83	28	42

(g) Hedge breakdown by type of hedging relationship

€ million	12/31/2007	12/31/2006
Fair value hedges	40	4
Cash flow hedges	23	(1)
No hedge	42	3
	105	6

Cash flow hedges mostly expire within one year.

(33) Stock-based payments

Executive and management board members of MAN companies receive stock-based payments. Up to fiscal 2004, such payments had been based on MAN's Stock Appreciation Rights (SAR) program, which offered cash payments depending on MAN stock performance (phantom stock options). In fiscal 2006, the MAN Stock Program superseded the SAR, offering to eligible staff cash payments which are tied to the purchase of MAN common stock.

(a) MAN Stock Program (MSP)

Under the MSP, which has been implemented since 2005, 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.

Moreover, the MSP terms obligate the participants to invest 16.67 percent of the annual variable bonus in MAN common stock (stock bonus); the waiting period for these purchased shares has been fixed at 2 years.

Under the MSP 2007 and from the 2006 stock bonus, the participants received in 2007 a total 33,532 MAN common shares (down from 33,799) at an average price of €105.03 (up from €54.17). A total of €7.045 million was disbursed for this purpose (up from €3.650 million), including €3.709 million for the stock bonus (up from nil).

A total €4.691 million has been accrued for stock purchases in 2008 from the 2007 stock bonus (up from €3.709 million).

In the year under review, MAN AG's Executive Board members subscribed for 17,260 shares (up from 12,781), the associated cash outflow for shares purchased totaling €3.618 million (up from €1.380 million), including €2.238 million for the stock bonus 2006. A total €2.453 million has been accrued for stock purchases in 2008 from the 2007 stock bonus (up from €2.238 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 was in each case the closing stock price 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, and assuming that 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 2006 and 2007 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 2007 as follows:

€	SARP 2000	SARP 2004
Total SARs at January 1, 2007	40,470	54,100
exercised in the period	40,470	54,100
Total SARs at December 31, 2007	-	-

€1.795 million (down from €6.794 million) was paid out in the fiscal year as SARs were exercised, including €0.497 million (down from €0.998 million) under the SARP 2000 and €1.298 million (down from €4.890 million) under the SARP 2004 (in 2006, plus €0.906 million under the SARP 2001).

The 3,450 stock appreciation rights remaining at RENK AG as of December 31, 2006, were likewise fully exercised in 2007.

(34) Related party transactions

According to its notification of February 2007 under the terms of Sec. 21(1) clause 1 German Securities Trading Act ("WpHG"), Wolfsburg-based Volkswagen AG holds a 29.9-percent stake in MAN AG. In fiscal 2007, services for €10 million were sourced from Volkswagen AG. Liabilities of €1 million existed at December 31, 2007.

Related parties of significant importance to the MAN Group are its associated affiliates, with which business is transacted (exchange of products and services), the extent of such business being summarized in the table below.

€ million	2007
Sales	236
Services purchased	2
Receivables (at Dec. 31)	151
Payables (at Dec. 31)	2

No material trade relationships with corporate related parties existed in 2006. For the transactions with physical related parties (reportable according to IAS 24), see Notes (35) and (36) below.

(35) Remuneration of the Executive Board

Breakdown of Executive Board remuneration:

€ '000	2007	2006
Fixed compensation	2,978	2,949
Variable bonus (cash)	4,906	5,122
Variable bonus (stock) and MSP	3,834	3,620
Pension expense	1,306	2,033
Total	13,024	13,724

The postretirement benefit disclosed corresponds to the service cost according to pension accruals.

As of December 31, 2007, the present value of DBO to active Executive Board members totaled €6.819 million (up from €5.917 million). The related pension expense from the addition to accruals amounted to €1.557 million (down from €2.212 million), including service cost of €1.306 million (up from €0.751 million) and interest cost of €0.251 million (up from €0.179 million); in 2006, another €1.282 million had been incurred as expense when the pension plan was changed.

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 €3.948 million (down from €5.747 million), while the accrual for pension obligations to such former members and their surviving dependants totaled €41.739 million (down from €43.945 million).

The Executive Board members including their memberships in statutory supervisory and other comparable boards are listed on pages 188 et seq., further details of their remuneration and pay components being disclosed on pages 15 et seq., of this annual report. The remuneration of each active Executive Board member is specified in the table below.

Executive Board remuneration 2007 / [2006]

€ '000	Fixed salary	Variable cash bonus	Variable stock bonus and MSP	Pension expense	Total	No. of shares acquired in fiscal year
Håkan Samuelsson (CEO)	816 [812]	1,387 [1,387]	1,083 [1,083]	365 [347]	3,651 [3,629]	5,172 [3,612]
Prof. Dr. h.c. Karlheinz Hornung	540 [527]	862 [862]	674 [674]	238 [409]	2,314 [2,472]	3,215 [2,246]
Dr. jur. Matthias Mitscherlich	519 [518]	862 [862]	674 [674]	241 [311]	2,296 [2,365]	3,215 [2,246]
Dr.-Ing. Georg Pachta-Reyhofen (in 2006 as from July 1)	515 [257]	862 [431]	674 [459]	222 [334]	2,273 [1,481]	2,177 [2,246]
Anton Weinmann	588 [584]	933 [933]	729 [730]	240 [324]	2,490 [2,571]	3,481 [2,431]
Prof. Gerd Finkbeiner (2006 up to June 30)	[251]	[647]	–	[308]	[1,206]	
Total	2,978 [2,949]	4,906 [5,122]	3,834 [3,620]	1,306 [2,033]	13,024 [13,724]	17,260 [12,781]

The cost of shares acquired in the fiscal year is included in the amounts shown in column *Variable stock bonus and MSP*.

(36) Remuneration of the Supervisory Board

The Supervisory Board's remuneration breaks down as follows:

€ '000	2007	2006
Fixed fee	769	749
Variable fee	1,536	1,496
Committee membership fee	303	271
Total	2,608	2,516

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, 2007, amounted to €0.023 million (down from €0.026 million).

The Supervisory Board members including their memberships in other statutory supervisory and comparable boards are listed on pages 198 et seq., further details of their fees and fee components being disclosed on pages 15 et seq., of this annual report. The remuneration of each active Supervisory Board member is specified in the table below.

Supervisory Board fees in (€ '000)

Name	Member- ship in 2007	Fixed fee	Variable fee	Committee member- ship fee	Total 2007	Total 2006
Hon.-Prof. Dr. techn. h.c. Dipl.-Ing. ETH Ferdinand K. Piëch, Chairman as from May 10, 2007	since 5/10/07	45	89	45	179	–
Lothar Pohlmann, Vice-Chairman	all year	53	105	53	211	183
Dr.-Ing. Ekkehard D. Schulz, Chairman up to, and Vice-Chairman as from, May 10, 2007	all year	59	118	54	231	298
Prof. Dr.-Ing. Joachim Milberg, Vice-Chairman up to May 10, 2007	up to 5/10/07	19	38	19	76	210
Michael Behrendt	all year	35	70	34	139	105
Dr. Dipl.-Ing. Herbert H. Demel	up to 5/10/07	13	25	–	38	105
Detlef Dirks	all year	35	70	–	105	105
Jürgen Dorn	all year	35	70	11	116	105
Klaus Eberhardt	up to 5/10/07	13	25	–	38	105
Dr.-Ing. Robert Glauber	up to 5/10/07	13	25	–	38	31
Dr. rer. nat. Hubertus von Grünberg	up to 3/6/07	6	13	–	19	105
Jürgen Hahn	all year	35	70	–	105	105
Dr.-Ing. Uwe Hansult	since 5/10/07	22	45	–	67	–
Dr. jur. Heiner Hasford	since 5/10/07	22	45	–	67	–
Dr. phil. Klaus Heimann	all year	35	70	–	105	105
Jürgen Kerner	all year	35	70	–	105	69
Dr. jur. Karl-Ludwig Kley	up to 8/31/07	23	47	19	89	157
Prof. Dr. rer. pol. Renate Köcher	all year	35	70	–	105	105
Dr. jur. Thomas Kremer	since 9/1/07	12	23	–	35	–
Wilfrid Loos	all year	35	70	–	105	31
Nicola Lopopolo	all year	35	70	–	105	105
Thomas Otto	all year	35	70	35	140	127
Dipl.-Kfm. Stefan W. Ropers	since 5/10/07	22	45	11	78	–
Dr.-Ing. E.h. Rudolf Rupprecht	all year	35	70	–	105	105
Stephan Schaller	since 5/10/07	22	45	–	67	–
Rupert Stadler	since 3/26/07	27	53	22	102	–
Dr. rer. nat. Hanns-Helge Stechl	up to 5/10/07	13	25	–	38	105
Members resigned in 2006						150
Total 2007		769	1,536	303	2,608	–
Total 2006		749	1,496	271	–	2,516

For their membership in supervisory boards of other MAN companies, Mr. Dorn received another k€10 (down from k€12), Mr. Hahn k€20 (down from k€23), Mr. Kerner k€5 (virtually unchanged), Mr. Otto k€13 (down from k€15), and Mr. Loos k€3 (virtually unchanged).

Expenses refunded for attending Supervisory Board and committee meetings totaled k€113 in 2007 (up from k€60).

(37) Corporate governance code

In December 2007, 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 and will carry out the recommendations of the Code as amended up to June 14, 2007.

Furthermore, the Executive and Supervisory Boards of our listed subsidiary RENK AG, Augsburg, issued, and disclosed to their stockholders on the Internet, the declaration of conformity under the terms of Art. 161 AktG.

(38) Subsequent events

The January 2008 swap of further class B for class A Scania shares raised our voting interest to 17.01 percent while our shareholding remained at an unchanged 13.23 percent.

During the past weeks, the MAN Group has gone through a corporate rating process: The two agencies, Standard & Poor's and Moody's, have rated MAN at A- and A3, respectively. These grades place MAN among the 10 top-rated DAX industrial corporations. The rating grades assigned further improve the MAN Group's access to the capital market and will add to MAN's financial flexibility and a more diversified finance structure.

No other subsequent events occurred that are of material significance for the MAN Group and might result in a different assessment of MAN. Business in early 2008 has endorsed the statements made in the Prospects chapter.

(39) Segment reporting

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 and the parent MAN AG as holding company and the Corporate Center are subsumed, the latter also comprising companies with no operating business. In 2006, MAN Finance had been shown under Others whereas since 2007, the MAN Finance figures have been aggregated with MAN Nutzfahrzeuge's, the prior-year data having been restated accordingly.

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 103 et seq. of the group management report.



Segment reports

Condensed financial information of the segments

€ million	Commercial Vehicles		Diesel Engines		Turbo Machinery		Industrial Services	
	2007	2006	2007	2006	2007	2006	2007	2006
Noncurrent assets (excl. taxes)	3,430	4,060	201	185	169	152	465	365
thereof shares in investees carried at equity	26	10	–	–	–	–	277	156
Inventories	1,675	1,592	645	556	249	155	576	594
Receivables and other assets	2,990	2,629	497	383	304	209	394	425
Income (incl. deferred) tax assets	291	284	36	47	14	18	60	79
Assets of disposal groups	–	–	–	–	–	–	13	254
Cash & cash equivalents and securities	148	70	362	241	204	184	629	448
Total assets	8,534	8,635	1,741	1,412	940	718	2,137	2,165
Equity	1,894	1,306	531	394	232	156	334	255
Pension obligations	38	599	8	85	20	64	41	74
Financial liabilities	2,395	2,359	133	139	0	4	27	33
All other liabilities and accruals	3,958	4,155	1,033	755	614	436	1,671	1,593
Liabilities of disposal groups	–	–	–	–	–	–	–	116
Income (incl. deferred) tax liabilities	249	216	36	39	74	58	64	94
Net liquid assets/(Net financial debt)	(2,247)	(2,289)	229	102	204	180	602	415
Net sales	10,410	8,685	2,179	1,802	1,108	908	1,445	1,379
Cost of sales	(8,171)	(6,851)	(1,526)	(1,288)	(830)	(696)	(1,179)	(1,126)
Gross margin	2,239	1,834	653	514	278	212	266	253
Selling expenses	(538)	(480)	(148)	(124)	(75)	(67)	(129)	(121)
General administrative expenses	(449)	(389)	(83)	(75)	(46)	(44)	(83)	(88)
P/L from investees carried at equity	(9)	–	–	–	–	–	61	31
All other income/expenses, net	(54)	(267)	(109)	(86)	(53)	(30)	64	44
EBIT	1,189	698	313	229	104	71	179	119
Net interest result	(44)	(111)	6	(1)	7	(2)	(6)	(38)
EBT of continuing operations	1,145	587	319	228	111	69	173	81
EAT of discontinued operations	–	–	–	–	–	–	15	15
EBITDA	1,496	928	344	261	123	88	207	145
thereof amortization/depreciation	(217)	(226)	(31)	(30)	(19)	(17)	(16)	(21)
thereof write-down	(90)	(4)	–	(2)	–	–	(12)	(5)
Cash flow from operating activities	1,204	145	333	223	94	185	260	(94)
thereof cash earnings	1,107	549	270	186	114	87	102	40
Cash flow from investing activities	(305)	(282)	(39)	(30)	(38)	(45)	(3)	4
thereof capital expenditures/investments	(357)	(350)	(48)	(49)	(39)	(53)	(46)	(22)
Free cash flow	899	(137)	294	193	56	140	257	(90)
Cash flow from financing activities	(923)	182	(174)	(66)	(46)	(38)	(33)	238

* Corporate Center: MAN AG plus shared services and holding companies

Others/Consolidation

RENK		Corporate Center *		Consolidation		Subtotal		Group	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
69	61	2,040	1,494	(5)	(16)	2,104	1,539	6,369	6,301
-	-	54	30	(3)	-	51	30	354	196
150	139	1	1	(17)	(5)	134	135	3,279	3,032
102	92	456	335	(332)	(288)	226	139	4,411	3,785
10	14	154	268	4	12	168	294	569	722
-	-	-	-	-	(10)	-	(10)	13	244
10	42	3,398	3,071	(3,231)	(2,894)	177	219	1,520	1,162
341	348	6,049	5,169	(3,581)	(3,201)	2,809	2,316	16,161	15,246
118	89	2,112	1,670	(44)	(91)	2,186	1,668	5,177	3,779
5	72	21	53	(1)	(1)	25	124	132	946
1	1	2,644	2,444	(3,233)	(2,872)	(588)	(427)	1,967	2,108
186	168	639	653	(316)	(292)	509	529	7,785	7,468
-	-	-	-	-	(21)	-	(21)	-	95
31	18	633	349	13	76	677	443	1,100	850
9	41	754	627	2	(22)	765	646	(447)	(946)
430	356	153	121	(217)	(202)	366	275	15,508	13,049
(325)	(286)	(140)	(123)	235	209	(230)	(200)	(11,936)	(10,161)
105	70	13	(2)	18	7	136	75	3,572	2,888
(22)	(20)	(1)	-	2	(1)	(21)	(21)	(911)	(813)
(12)	(11)	(78)	(72)	2	-	(88)	(83)	(749)	(679)
-	-	24	12	-	(1)	24	11	76	42
(3)	(1)	101	6	(21)	1	77	6	(75)	(333)
68	38	59	(56)	1	6	128	(12)	1,913	1,105
(2)	(3)	(22)	20	-	53	(24)	70	(61)	(82)
66	35	37	(36)	1	59	104	58	1,852	1,023
-	-	(11)	(58)	-	218	(11)	160	4	175
76	46	91	(31)	1	(4)	168	11	2,338	1,433
(8)	(8)	(25)	(23)	-	11	(33)	(20)	(316)	(314)
-	-	(7)	(2)	-	(1)	(7)	(3)	(109)	(14)
61	24	521	(22)	(364)	316	218	318	2,109	777
51	30	(317)	(308)	334	379	68	101	1,661	963
(16)	(12)	(10)	(658)	(15)	(306)	(41)	(976)	(426)	(1,329)
(16)	(17)	(262)	(1,250)	4	81	(274)	(1,186)	(764)	(1,660)
45	12	511	(680)	(379)	10	177	(658)	1,683	(552)
(78)	(12)	(359)	1,114	66	(704)	(371)	398	(1,547)	714

Condensed financial information of the segments

€ million	Commercial Vehicles		Diesel Engines		Turbo Machinery		Industrial Services	
	2007	2006	2007	2006	2007	2006	2007	2006
Order intake by the segments	12,684	10,103	3,371	2,619	1,454	1,498	1,556	1,982
thereof Germany	3,770	3,186	405	185	252	320	380	283
thereof abroad	8,914	6,917	2,966	2,434	1,202	1,178	1,176	1,699
Intersegment order intake	(24)	(13)	(6)	(6)	(81)	(5)	(11)	(6)
Order intake by the Group	12,660	10,090	3,365	2,613	1,373	1,493	1,545	1,976
Sales by the segments	10,410	8,685	2,179	1,802	1,108	908	1,445	1,379
thereof Germany	3,470	2,668	257	248	210	138	269	247
thereof abroad	6,940	6,017	1,922	1,554	898	770	1,176	1,132
Intersegment transfers	(27)	(35)	(14)	(10)	(7)	(22)	(5)	(9)
Group sales	10,383	8,650	2,165	1,792	1,101	886	1,440	1,370
Order backlog at Dec. 31	6,266	4,213	3,866	2,800	1,655	1,341	2,415	2,342
Headcount incl. temporary employees at Dec. 31	36,591	36,206	7,383	6,862	4,011	3,545	4,687	4,879
thereof Germany	20,541	20,966	3,280	3,036	2,815	2,520	2,648	2,715
thereof abroad	16,050	15,240	4,103	3,826	1,196	1,025	2,039	2,164
Headcount at Dec. 31	34,148	34,194	6,837	6,408	3,610	3,257	4,175	4,290
Annual average headcount	34,685	33,977	6,685	6,378	3,492	3,053	4,145	4,483
Indicators								
Operating profit	1,039	698	313	229	104	71	179	119
ROS (%)	10.0	8.0	14.4	12.7	9.4	7.8	12.4	8.6
MAN VA	762	404	264	175	81	45	126	77

* Corporate Center: MAN AG plus shared services and holding companies

Segment information by regions

€ million	Germany	Other Europe	Other world	Total
2007				
Segment assets at Dec. 31	11,296	4,392	473	16,161
Capital expenditures	619	134	11	764
Sales	4,343	7,041	4,124	15,508
Headcount at Dec. 31	29,450	18,906	2,699	51,055
Headcount incl. temporary employees at Dec. 31	31,611	20,396	3,079	55,086
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
Headcount incl. temporary employees at Dec. 31	31,368	19,500	2,847	53,715

Others/Consolidation									
RENK		Corporate Center *		Consolidation		Subtotal		Group	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
439	417	413	121	(543)	(173)	309	365	19,374	16,567
199	180	410	121	(487)	(124)	122	177	4,929	4,151
240	237	3	-	(56)	(49)	187	188	14,445	12,416
(33)	(37)	(388)	(106)	543	173	122	30	-	-
406	380	25	15	-	-	431	395	19,374	16,567
430	356	153	121	(217)	(202)	366	275	15,508	13,049
165	130	151	121	(179)	(158)	137	93	4,343	3,394
265	226	2	0	(38)	(44)	229	182	11,165	9,655
(25)	(20)	(139)	(106)	217	202	53	76	-	-
405	336	14	15	-	-	419	351	15,508	13,049
684	672	260	-	(396)	(70)	548	602	14,750	11,298
1,854	1,654	560	569	-	-	2,414	2,223	55,086	53,715
1,771	1,566	556	565	-	-	2,327	2,131	31,611	31,368
83	88	4	4	-	-	87	92	23,475	22,347
1,728	1,575	557	566	-	-	2,285	2,141	51,055	50,290
1,695	1,549	571	554	-	-	2,266	2,103	51,273	49,994
68	38	26	(56)	1	6	95	(12)	1,730	1,105
15.7	10.5	-	-	-	-	-	-	11.2	8.5
52	23	-	-	-	-	-	-	1,148	717

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

Munich, February 12, 2008

MAN AG
The Executive Board

MANAGEMENT REPRESENTATION

We represent that, to the best of our knowledge and in accordance with applicable accounting principles, the consolidated financial statements present a true and fair view of the MAN Group's asset and capital structure, financial position and results of operations, as well as that the group management report describes fairly, in all material respects, the Group's business trend and performance, the Group's position, and the significant risks and rewards of the Group's future development.

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 2007. 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.

The Executive Board

INDEPENDENT AUDITOR'S REPORT AND OPINION

We have audited the consolidated financial statements (consisting of income statement, balance sheet, cash flow statement, statement of changes in comprehensive income, and notes) and the group management report, all as prepared by MAN AG, Munich, for the fiscal year ended December 31, 2007. 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, 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 applicable accounting principles 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 with the additional financial-accounting provisions of Art. 315a(1) HGB, 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 12, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Hoyos
Wirtschaftsprüfer

Dr. Dauner
Wirtschaftsprüfer