



MAN Group: Report on the 2005 financial year

Munich, Feb. 21, 2006

- **Operating profit €765 million (~~€566 million~~)**
- **Return on capital employed (ROCE) 19.7% (13.6%)**
- **Return on sales (ROS) 5.1% (3.9%)**
- **Earnings per share €3.04 (~~€2.11~~)**
- **Dividend proposal €1.35 (~~€1.05~~)**
- **Cashflow provided by operating activities €1,402 million (~~€974 million~~)**
- **Program for performance increase on track**
- **Concentration on core business areas concluded**
- **Favorable economic environment / Expectation for 2006 positive**

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The **MAN Group** is one of Europe's leading manufacturers of engineering equipment and vehicles, generating annual sales of around €15 billion. MAN supplies products, systems and services to the capital goods industry and employs approx. 58,000 people worldwide. The Business Areas operated by the MAN Group, Commercial Vehicles, Industrial Services, Printing Systems, Diesel Engines and Turbomachines, all hold leading positions in their markets. MAN AG, Munich is a member of the DAX German Share Index, which comprises Germany's top thirty public limited companies.

At a glance

MAN Group	2005	2004 **)	Change	2005	2004 **)	Change
	€ million	Q1 – Q4	in %	Q4	Q4	in %
Order intake	17,994	15,645	15	4,086	4,133	-1
Germany	4,065	3,850	6	1,110	1,026	8
rest of the world	13,929	11,795	18	2,976	3,107	-4
Sales	14,955	14,504	3	4,416	4,501	-2
Germany	3,852	3,721	3	1,140	1,135	0
rest of the world	11,103	10,783	3	3,276	3,366	-3
Order backlog *)	10,893	7,954	37	10,893	7,954	37
Employees (number)*)	58,203	59,008	-1	58,203	59,008	-1
Germany	36,331	37,297	-3	36,331	37,297	-3
rest of world	21,872	21,711	1	21,872	21,711	1
Employees incl. loaned employees (number) *)	60,776	61,325	-1	60,776	61,325	-1
Germany	37,946	38,844	-2	37,946	38,844	-2
rest of world	22,830	22,481	2	22,830	22,481	2
			in € million			in € million
Operating profit	765	566	199	292	242	50
Earnings before taxes on income (EBT)	638	450	188	282	208	74
Earnings after taxes on income	472	323	149	203	152	51
Earnings per share in €	3.04	2.11	0.93	1.35	1.01	0.34
Dividend per share in € ***)	1.35	1.05	0.30	-	-	-
Capital expenditures	440	389	51	154	139	15
Depreciation of tangible assets	378	402	-24	114	139	-25
R&D expenditures	499	476	23	129	122	7
Cash earnings	991	915	76	414	349	65
Cash provided by operating activities	1,402	974	428	651	658	-7
Cash used in investing activities	(513)	(369)	-144	(231)	(194)	-37
Free cash flow	889	605	284	420	464	-44
Cash and cash equivalents *)	1,019	604	415	1,019	604	415
Net liquid assets (net debt) *)	173	8	165	173	8	165
Equity *)	3,344	3,031	313	3,344	3,031	313

2005 figures subject to audit by certified accountant and the approval of the financial statements by the Supervisory Board

*) Value on 12/31/2005 compared to 12/31/2004

***) 2004 excluding areas discontinued in 2005 (SHW, MAN Technologie, MAN WOLFFKRAN, MAN Logistics)

****) 2005 Proposal of the Executive Board to the Supervisory Board

2005 economic environment

Strong global demand for capital goods

The global economy expanded further in 2005, though the economic momentum slowed somewhat in the course of the year due to a strong rise in energy and raw material prices. Economic growth did exceed the long-term average with 3.5%, though it fell considerably below the previous year's level of 4.0%. North America, Eastern Europe, Asia and Latin America continued to provide the strongest growth contributions.

The economic expansion in the euro-zone continued its restrained trend. Gross domestic product saw a plus of 1.4% in 2005. The high demand of the global economy and a stronger US dollar generated positive impulses for the foreign demand for capital goods. However, domestic demand in the euro-zone was again below expectations.

The German economic trend continues to be based on exports. However, the demand impulse from abroad only stimulated the domestic economy to a certain degree. Economic growth therefore reached a mere 0.9% in 2005. However, the economic cycle in the German capital goods industry showed a very pleasing performance against the general trend yet again. The global demand for German capital goods increased 6.0% overall in real terms. Order intake from abroad grew by 9.0%. In contrast, domestic demand did not contribute to the growth and fell 1% from the level of 2004.

The MAN Group participated in all business areas of the high global demand for capital goods, above all with diesel engines, trucks and industrial equipment.

2005 business performance of the MAN Group

Order intake with record volumes

The MAN Group reached the highest level of order intake in its history in 2005 despite the business volume reduced by the sale of multiple holdings. With €18.0 billion, the previous year's figure (€15.6 billion) was exceeded by 15%. The volume of major orders was extraordinarily high with €3.3 billion (+74%); Commercial Vehicles, Industrial Services and Printing Systems received some very large orders. This includes above all a €1.4 billion major truck order from the British Ministry of Defence, a major methanol plant order from Oman for MAN Ferrostaal of €300 million and a web-fed press order by News International of more than €300 million. In the current business excluding major orders, the MAN Group showed an order plus of 7% up from 2004.

All producing areas of the MAN Group managed to considerably increase their order intake. The strong rise in the order intake of Commercial Vehicles (+24%) was not only a result of the order by the British Ministry of Defence. Commercial Vehicles' orders would have grown by 6% even without this order. Printing Systems (+12%), Diesel Engines (+18%) and Turbomachines managed to show double-digit growth rates. The minus reported in Industrial Services (-12%) is attributable to a shrunken steel business.

The domestic order intake exceeded the 2004 volume by 6% with €4.1 billion. In European countries outside of Germany, we reached a growth of 29%. The continuously strong growth regions in Asia showed 28% more orders than in the previous year. Our focal points here are in the Southeast Asian countries as well as in the Middle East. The order intake in the Americas fell by 7%. While the producing areas also managed to increase here, order intakes of Industrial Services declined from the previous year.

Strong sales plus in the producing units / Order backlog at a peak level

The increased order intake also sparked a rise in sales. This figure increased to €15.0 billion, 3% more than in 2004 (€14.5 billion). In the producing areas, the sales increase came out to 7%; here all areas managed to rise. The decline in sales for Industrial Services of -12% was predominantly a result of lower settlements of major orders in the project business

Due to the high growth in the order intake, the order backlog in the MAN Group has been considerably extended. This amounted to €10.9 billion on December 31, 2005, representing a growth of 37% over 2004 (€8.0 billion). All areas have a higher order backlog than at the beginning of the financial year; in the labor-intensive areas of Printing Systems (+39%), Diesel Engines (+37%) and Turbomachines (+32%) this showed a significant double-digit increase, while it doubled in Commercial Vehicles not least due to the MoD order (+102%). Overall the high order backlog represents a good basis for the utilization of the production capacities in the 2006 financial year.

R&D expenses and capital expenditures continue on a high level

The MAN Group maintains expenses for the improvement of production and service as well as for innovation and the securing of future operations at a high level. Research and development expenses amounted to €499 million in the reporting period, a 5% rise over the previous year. €370 million came from internal funds. The funds for order-related R&D activities as well as publicly funded projects amounted to €129 million. More than 37% of internal funds have been invested in the basic research and the development of new products.

Investments in fixed and intangible assets amounted to €440 million in the 2005 financial year after €389 million in the previous year. The rise by €51 million is predominantly based on the higher order intake of the Commercial Vehicles and Diesel Engines areas as well as higher values of the holdings of Industrial Services.

Permanent workforce drops marginally

The MAN Group had 58,203 permanent employees as of December 31, 2005. Compared to the status of 59,008 employees on the same reporting day of the previous year, this is a decline of 805 employees or 1%, which predominantly dates back to sale of the Penzberg plant and MAN Heiztechnik. On a comparable basis, the number of employees dropped by 333. For domestic companies, the number of employees dropped from 37,297 to 36,331 and the employee count at companies outside of Germany grew slightly overall from 21,711 to 21,872. The share of permanent employees at foreign businesses increased from the figure of December 31, 2004 by 0.8% to 37.6%.

Due to insufficient utilization and a product conversion, the Geisenheim location of MAN Roland Druckmaschinen was shut down at the end of 2005. Of the 314 employees affected, 188 were transferred to Offenbach or other MAN sites. Also due to weak utilization and unfavorable production conditions, NEOMAN Bus GmbH decided to close down the NEOPLAN location in Stuttgart by 2007. A compensation agreement and a social compensation plan for the 414 employees affected there have been concluded. The cost burdens expected are all included in the 2005 financial statements.

The number of loaned employees in the MAN Group rose from 2,317 in the previous year by 256 to 2,573 on December 31, 2005. Of these, 1,615 are employed in Germany (up from 1,547) and 958 outside of Germany (up from 770).

Personnel expenses increased slightly from the previous year by €130 million to €3,307 million (+4.1%).

Earnings increased by more than one-third

The MAN Group managed to considerably improve earnings in all areas in 2005. Operating profit of the Group rose by €199 million or 35% to €765 million. The business areas Commercial Vehicles, Diesel Engines and Printing Systems made a significant contribution to this, both of which profited from increased business volumes and optimized business processes. Earnings of the Commercial Vehicles business area rose by €127 million to €469 million and Diesel Engines more than doubled its operating profit to €117 million (€55 million). With sheet-fed presses, the Printing Systems area again achieved positive earnings and a strong rise overall in 2005 with €6 million to €65 million after the loss in the previous year (-€41 million). Earnings of Industrial Services and Turbomachines improved by €18 million to €90 million and by €7 million to €43 million, respectively. Earnings of the Corporate Center dropped €79 million to -€63 million. This is largely due to the discontinuation of the Group allocation calculated in previous years (€46 million). Furthermore, 2004 earnings included profits from property sales (€9 million).

The MAN Group's earnings before taxes rose from €450 million to €638 million. This includes expenses for the shut-down of the Geisenheim sheet-fed press location and of the NEOPLAN location in Stuttgart with €49 (up from €0) million together, which, as special items, are not included in operating profit. The higher net cash position of the industrial business resulted in an improvement in the interest result (excluding Financial Services) from -€116 million to -€78 million.

The MAN Group's tax expense rose from €125 million to €181 million. The tax rate came out to 28.4% after 27.8% in the previous year.

Earnings after taxes of the MAN Group reached €472 million, a rise of €149 million or 46% over the previous year (€323 million). Earnings per share improved from €2.11 in the previous year by €0.93 or 44% to €3.04 in 2005.

The Executive Board of MAN Aktiengesellschaft will recommend a dividend payout of €1.35 per share to the Supervisory Boards. This would mean a payout of €199 million overall. This represents a dividend increase of almost 30% or €0.30 per share over the previous year.

Returns improve considerably – ROCE exceeds the target for the first time

With the increase in operating profit, the return figures have also improved significantly. Return on sales (ROS) in 2005 came out to 5.1%, up from 3.9% in the previous year – this includes the producing areas (MAN Group excluding Industrial Services and Financial Services) 5.7% (up from 4.5%). The return on capital employed (ROCE) rose to 19.7% from a previous 13.6%. The reduction in the company's capital employed by €268 million to an average €3,882 million in 2005 also contributed to this. As such, the MAN Group for the first time reached and even exceeded the ROCE target of 18%. The target for the return on sales is 6%, including 6.5% for the producing units. The target returns should be reached on the average throughout an economic cycle, whereby higher figures are required in good economic times.

WACC capital costs and value contribution

The significantly increased ROCE also leads to a higher value contribution of operating activities. The value contribution is the measure of the development of the company value and is calculated from the difference between the return on capital and cost of capital, based on the amount of capital employed. The MAN Group's cost of capital (WACC: Weighted Average Cost of Capital) amount to 10.5% before taxes. The MAN Group generated a value contribution of €335 million in 2005, after €106 million in 2004. Every one of the five business areas made a positive contribution to this.

Cash flow significantly higher

The cash provided by operating activities for the MAN Group improved overall by €339 million from €974 million in the previous year to €1,402 million. The free cash flow increased by €284 million from €605 million to €889 million. A cash flow of -€513 million (-€369 million) resulted from investment activities. For investments in fixed assets, intangible assets and participations noticeably more was spent with €440 million than in the previous year (€389 million). An amount of €500 million was allocated to the new MAN Pension Trust. The net liquid assets of the MAN Group increased to €173 million on December 31, 2005 after €8 million in the previous year.

Concentration on core areas

The MAN Group has concluded the announced concentration on its five business areas in the lapsed year. The holdings of MAN AG in Schwäbische Hüttenwerke (SHW), MAN Technologie, MAN WOLFFKRAN and MAN Logistics have been sold, as their activities were no longer included in the core business. These companies were already accounted for in the course of 2005 as discontinued operations and are no longer included in the 2005 figures or the 2004 comparable figures. Income after taxes of €15 million from the sale of holdings is, as with the previous year's profit of these companies of -€2 million, not displayed in the operating profit.

Pensions system changed / €500 million CTA allocation

In 2005, the Executive Board resolved to gradually change the financing of service costs from pension provisions to capital cover. The MAN Pension Trust e.V. was established according to the model of a CTA (Contractual Trust Agreement) with allocated funds of €500 million from the start; this allocation reduces pension provisions accordingly. After the year-end allocation, pension provisions amounted to €1,185 million compared to €1,716 million at the end of 2004. This refinancing process should be continued until a full coverage of pension entitlements through the CTA. The capital cover is used exclusively for pension payments, which become even safer than before. In 2005 we switched most of the pension entitlements of those employees who received their pension commitment until 1999 to a defined contribution system, which was implemented by that time.

Outlook

Positive development of the global economy

Recent forecasts by economic research institutes give rise to hope for an ongoing growth of the global economy. The international environment developed positively at the beginning of the year. The global demand for capital goods should continue to expand in 2006. A higher momentum of economic activity is anticipated for Europe and GDP should rise by 2.0% in the euro zone.

As a result, economic perspectives for markets of the MAN Group remain good in 2006. We expect the commercial vehicle market to stabilize at a high level and the overall demand for capital goods to continue to increase.

Order intake and sales

In 2006 we expect the order intake of the producing areas of the MAN Group to increase in the current business (excluding major orders) compared to the 2005 level. However, the overall order volume will not equal the 2005 figure, which was exceptionally high due to extraordinary high orders (MoD/Commercial Vehicles, methanol plant in Oman and web-fed press order by News International). Furthermore, the order intake and sales of MAN Ferrostaal will decline considerably in the scope of a restructuring of steel trading activities to an international logistics business. Sales will rise at a high single-digit percentage rate adjusted for these effects, also thanks to the high order backlog at the beginning of the year. This also shows in the first few weeks of the new financial year.

Earnings in 2006

We expect another strong increase in operating profit and return for the MAN Group in 2006. In case of return on capital employed (ROCE) we will exceed the 18% mark even more and in terms of return on sales we should come very close to the 6% target. In addition to higher sales, these improvements are based on the expectation that additional efficiency measures will become effective in the business areas of Commercial Vehicles, Diesel Engines and Printing Systems. The extent of the earnings increase will also depend on how strong the economy and thus our production and sales volume will rise. The payout and therefore the amount of dividends of MAN Aktiengesellschaft will be a function of Group earnings in the future as well.

Business trend according to business area

Order intake						
€ million	2005	2004	Change	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in %	Q4	Q4	in %
Commercial Vehicles	9,434	7,589	24	2,275	1,941	17
Industrial Services	3,077	3,508	-12	538	940	-43
Printing Systems	2,109	1,885	12	446	536	-17
Diesel Engines	2,203	1,872	18	453	511	-11
Turbomachines	850	675	26	219	189	16
Other	1,251	1,176	6	340	263	29
Consolidation	(930)	(1,060)	-	(185)	(247)	-
MAN Group	17,994	15,645	15	4,086	4,133	-1

Sales						
€ million	2005	2004	Change	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in %	Q4	Q4	in %
Commercial Vehicles	7,805	7,409	5	2,284	2,265	1
Industrial Services	2,789	3,185	-12	746	1,051	-29
Printing Systems	1,738	1,620	7	532	530	0
Diesel Engines	1,666	1,421	17	483	395	22
Turbomachines	694	659	5	232	215	8
Other	1,174	1,236	-5	333	297	12
Consolidation	(911)	(1,026)	-	(194)	(252)	-
MAN Group	14,955	14,504	3	4,416	4,501	-2

Operating profit						
€ million	2005	2004	Change	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in € million	Q4	Q4	in € million
Commercial Vehicles	469	342	127	187	162	25
Industrial Services	90	72	18	21	22	-1
Printing Systems	65	3	62	56	24	32
Diesel Engines	117	55	62	39	19	20
Turbomachines	43	36	7	21	20	1
Other	1	80	-79	(5)	16	-21
Consolidation	(20)	(22)	2	(27)	(21)	-6
MAN Group	765	566	199	292	242	50

Return on sales			
in %	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in % points
Commercial Vehicles	6.0	4.6	1.4
Industrial Services	3.2	2.3	0.9
Printing Systems	3.7	0.2	3.5
Diesel Engines	7.1	3.9	3.2
Turbomachines	6.2	5.5	0.7
MAN Group	5.1	3.9	1.2

ROCE and value added						
	2005	2004	Change	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in % points	Q1 – Q4	Q1 – Q4	in € million
	ROCE in %			Value added in € million		
Commercial Vehicles	17.1	12.8	4.3	167	48	119
Industrial Services	38.1	34.1	4.0	64	49	15
Printing Systems	23.2	0.6	22.6	34	(47)	81
Diesel Engines	26.1	10.9	15.2	68	0	68
Turbomachines	23.3	15.7	7.6	23	11	12
Other / consolidation	-	-	-	(21)	45	-66
MAN Group	19.7	13.6	6.1	335	106	229

Reconciliation of operating profit to net income

€ million	2005	2004	Change	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in € million	Q4	Q4	in € million
Operating profit	765	566	199	292	242	50
Earnings from special activities	(49)	–	–49	–	–	–
Net interest result of Industrial Business	(78)	(116)	38	(10)	(34)	24
EBT	638	450	188	282	208	74
Income taxes	(181)	(125)	–56	(79)	(53)	(26)
Net result of discontinued operations	15	(2)	17	–	(3)	3
Net income	472	323	149	203	152	51
Earnings per share in €	3.04	2.11	0.93	1.35	1.01	0.34

The business areas in detail**Commercial Vehicles**

In an overall growing commercial vehicle market in Europe (+6%), the MAN Nutzfahrzeuge Group slightly increased its market share for trucks above 6 tons from 15.3% to 15.6%. The amount of trucks delivered reached a peak value of 68,209 (plus 8%). Unit sales for buses stagnated at 6,009 (down from 6,062). Order intake reached a peak value, which was largely due to a major order by the British Ministry of Defense (€1.4 billion). Sales increased by 6% to €7.8 billion (up from €7.4 billion). With €469 million (plus €127 million), Commercial Vehicles reached the highest earnings in the history of the business area. The 2006 outlook remains positive; a stable market and a further earnings and margin increase to the target figure is anticipated.

Commercial Vehicles – key figures

€ million	2005	2004	Change	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in %	Q4	Q4	in %
Order intake	9,434	7,589	24	2,275	1,941	17
Sales	7,805	7,409	5	2,284	2,265	1
Employees *)	33,368	33,810	–1	33,368	33,810	–1
			in € million			in € million
Operating profit	469	342	127	187	162	25
ROS	6.0%	4.6%	–	–	–	–
ROCE	17.1%	12.8%	–	–	–	–

*) Number as of December 31, 2005 compared with December 31, 2004

Industrial Services

In the 2005 financial year the Industrial Services business area (MAN Ferrostaal Group) increased its operating profit by €18 million from €72 million to €90 million. This earnings improvement was possible, though both order intake and sales declined by 12% to €3,077 million (down from: €3,508 million) and to €2,789 million (down from: €3,185 million), respectively. The decline in orders was attributable to

the steel business, which was strongly affected by the declining steel price. Lower settlements of major projects were the main reason for the lower sales figure. International market positions should consequently be expanded in 2006 and the structure and processes optimized. Furthermore, the business area will be strengthened as an additional service platform for the MAN Group. We expect a further earnings increase.

Industrial Services – key figures						
€ million	2005	2004	Change	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in %	Q4	Q4	in %
Order intake	3,077	3,508	-12	538	940	-43
Sales	2,789	3,185	-12	746	1,051	-29
Employees *)	4,773	4,679	2	4,773	4,679	2
				in € million		
Operating profit	90	72	18	21	22	-1
ROS	3.2%	2.3%	-	-	-	-
ROCE	38.1%	34.1%	-	-	-	-

*) Number as of December 31, 2005 compared with December 31, 2004

Printing Systems

In the 2005 financial year the Printing Systems business area expanded considerably in both the web-fed and the sheet-fed sector. Business activities of web-fed presses remained at a very high level. Overall, an operating profit of €65 million (up from: €3 million) was generated. After three years of losses the sheet-fed area achieved the breakeven announced, as was our goal, and generated slightly positive earnings (+€6 million after -€41 million). We anticipate an overall slightly increasing dynamic of demand in the 2006 financial year, with the web-fed area having reached a very high order backlog. We expect an increase in 2006 operating profit overall and thus a clear approach toward return targets of the MAN Group.

Printing Systems – key figures						
€ million	2005	2004	Change	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in %	Q4	Q4	in %
Order intake	2,109	1,885	12	446	536	-17
Sales	1,738	1,620	7	532	530	0
Employees *)	8,832	9,026	-2	8,832	9,026	-2
				in € million		
Operating profit	65	3	62	56	24	32
ROS	3.7%	0.2%	-	-	-	-
ROCE	23.2%	0.6%	-	-	-	-

*) Number as of December 31, 2005 compared with December 31, 2004

Diesel Engines

The MAN B&W Diesel Group posted a significant rise in order intake and sales in 2005. Operating profit increased to €117 million thanks to a noticeable contribution by four-stroke engines. It has thereby more than doubled over the previous year (+€55 million). The situation in the field of shipbuilding continues to be favorable and

has a positive impact on demand for Diesel Engines. Asia remains the global center for these activities. Most of the local production capacities are fully utilized through to 2008. The constantly positive market conditions and the high order backlog will result in a sales increase in 2006. This and internal projects for enhancing efficiency will likely lead to a significant earnings increase in the current year.

Diesel Engines – key figures						
€ million	2005	2004	Change	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in %	Q4	Q4	in %
Order intake	2,203	1,872	18	453	511	-11
Sales	1,666	1,421	17	483	395	22
Employees *)	6,423	6,731	-5	6,423	6,731	-5
			in € million			in € million
Operating profit	117	55	62	39	19	20
ROS	7.1%	3.9%	-	-	-	-
ROCE	26.1%	10.9%	-	-	-	-

*) Number as of December 31, 2005 compared with December 31, 2004

Turbomachines

The MAN TURBO Group exceeded its targets in the 2005 financial year. Order intake rose by 26% to €850 million. The business area participated in major projects in the field of power generation, pipelines and gas to liquid, though this cannot be extrapolated to the same extent. As in the previous year, Asia remained the regional focus with a particular emphasis on China. The operating profit improved from €36 million to €43 million and return figures increased correspondingly. In light of the current project situation, we anticipate a brisk demand in 2006 in almost all applications and regions. Excluding the special effect of major orders in 2005, we anticipate an order intake at the level of the previous year, higher sales and a further improvement in profits.

Turbomachines – key figures						
€ million	2005	2004	Change	2005	2004	Change
	Q1 – Q4	Q1 – Q4	in %	Q4	Q4	in %
Order intake	850	675	26	219	189	16
Sales	694	659	5	232	215	8
Employees *)	2,476	2,472	0	2,476	2,472	0
			in € million			in € million
Operating profit	43	36	7	21	20	1
ROS	6.2%	5.5%	-	-	-	-
ROCE	23.3%	15.7%	-	-	-	-

*) Number as of December 31, 2005 compared with December 31, 2004