COMBINED MANAGEMENT REPORT

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COMBINED MANAGEMENT REPORT

The Combined Management Report describes the course of business and the position of the MAN Group and MAN SE in fiscal 2018.
The Corporate Governance Statement, which is published in the "Corporate Governance" section, forms part of this Combined Management Report.

THE MAN GROUP'S BUSINESS ACTIVITIES

Sustainable value creation by focusing on innovative transportation solutions, profitable international growth, customer orientation, after-sales activities, and technology leadership

The MAN Group

The MAN Group is one of Europe's leading commercial vehicle groups. It pursues the goals of offering its customers innovative transportation solutions, generating profitable international growth, and increasing its enterprise value in a sustainable way. In addition to consistent customer orientation, the key success factors are technology leadership and the continuous expansion of the after-sales business.

The MAN Group comprises MAN Truck & Bus and MAN Latin America.

MAN Truck & Bus is one of Europe's leading manufacturers of commercial vehicles and has production facilities in three European countries, Russia, South Africa, and Turkey. Its product portfolio comprises vans, trucks, buses, and diesel and gas engines, as well as passenger and freight transportation services. MAN Truck & Bus is thus a full-range supplier of commercial vehicles with a weight between three and 44 tons for all areas of application and special-purpose vehicles with a gross train weight of up to 250 tons. To complement its commercial vehicles portfolio, MAN Truck & Bus offers a growing range of services from a single source. MAN Truck & Bus is thus evolving from a commercial vehicles manufacturer into a provider of intelligent, sustainable transportation solutions.

MAN Latin America is one of the largest manufacturers of trucks and buses in Brazil and can look back on a history spanning more than 35 years. The company produces trucks and buses in Resende, Brazil, and Querétaro, Mexico. MAN Latin America staff at the Resende plant, which has a modular production system, work together in close partnership with suppliers. MAN Latin America has a nationwide sales and service network in Brazil and neighboring countries. Sales are primarily made through Volkswagen Caminhões e Ônibus. The most important markets for MAN Latin America are Latin America and Africa. The extensive dealer network in these regions comprises 349 dealers, including 144 exclusive sales and service partners in Brazil. MAN Latin America also covers the Brazilian heavy-duty truck segment with power output in excess of 420 horsepower with the MAN TGX, which has been offered there since 2012. In doing so, it established a dual-brand concept in Brazil and other Latin American countries.

Since 2009, MAN SE's Commercial Vehicles business area has held a strategic interest of 25% plus one share in Sinotruk (Hong Kong) Limited, Hong Kong, China (Sinotruk), one of the largest truck manufacturers in China. The investment enables MAN to operate in the local market. In addition to its cooperation with Sinotruk in the high-volume segment, MAN serves the small but growing premium truck market by exporting MAN vehicles to China.

MAN sold its Power Engineering business to a subsidiary of Volkswagen AG effective the end of December 31, 2018. In accordance with IFRS 5, Power Engineering is reported as a discontinued operation in MAN SE's consolidated financial statements. For 2018 and the 2017 comparatives, the figures — with the exception of the 2017 consolidated balance sheet items — are accordingly adjusted for the contributions by Power Engineering, and Power Engineering's business developments are no longer discussed. Power Engineering was deconsolidated effective December 31, 2018.

MAN as a part of TRATON

MAN Truck & Bus, MAN Latin America (most of whose vehicle sales are made through Volkswagen Caminhões e Ônibus), and Scania work closely together under the umbrella of the TRATON GROUP (formerly Volkswagen Truck & Bus). The aim is to turn TRATON and its brands into a Global Champion. The brands will, however, retain their identities and full operational responsibilities. Given the long product lifecycles in the commercial vehicles business, it will take ten to 15 years before the synergy potential from this alliance has been fully exploited. The entire power train — the most important cost driver for a truck — is relevant for joint development activities in the long term.

Cross-brand teams from MAN Truck & Bus, MAN Latin America, and Scania are jointly developing core power train components under the TRATON umbrella. Engines, transmissions, axles, and exhaust aftertreatment systems are being created on common platforms that can then be adapted by the individual brands. The brands have expanded their development cooperation initiative to include the technological fields of alternative drives, digitalization, and automated driving. Efficiency, zero emissions, and sustainability are becoming increasingly important in this respect.

Partnerships will play a significant role along the road to becoming a Global Champion. In 2016, TRATON entered into a far-reaching alliance with U.S. commercial vehicles manufacturer Navistar International Corporation, Lisle, U.S.A. The alliance includes master agreements for strategic technology and supply collaboration and a joint venture to leverage joint global sourcing opportunities.

Divestment

On October 25, 2018, the Volkswagen Group announced its intention to sell the Power Engineering business to a subsidiary of Volkswagen AG outside the MAN Group. The Power Engineering business comprised the two former reportable segments of MAN Energy Solutions and Renk. The transaction closed effective the end of December 31, 2018, at the instructions of TRATON SE, Munich (formerly Volkswagen Truck & Bus GmbH, Volkswagen Truck & Bus AG, and TRATON AG) pursuant to the domination and profit and loss transfer agreement between TRATON SE and MAN SE. Control of the Power Engineering business passed to the buyer as of that date.

The sale proceeds correspond to the carrying amount of the related net assets. For this reason, no impairment losses were recognized when these net assets were reclassified as held for sale. See the Notes to the Consolidated Financial Statements for further details of this transaction.

Research and development

Continuous research and development work is one of the Company's core tasks to meet customers' needs for efficient mobility solutions. Market requirements are influenced by the global megatrends of globalization, high international division of labor, population growth and urbanization, increasingly strict emissions regulations, as well as digitalization. Together with its customers, MAN intends to leverage the opportunities resulting from these megatrends.

The megatrends have a direct influence on future developments in freight transportation and the commercial vehicle industry. The consequences include the need to reduce fuel consumption as a result of stricter emission laws, growth in road transportation, targeted relief for traffic-sensitive areas such as city centers, and increasing safety requirements for road users. Our customers also aim to continuously increase their cost-effectiveness and reduce the total cost of ownership (TCO).

In addition to continually enhancing and developing its range of products, MAN Truck & Bus is therefore focusing its research and development activities on the three main areas of alternative drives, digitalization, and automated driving.

MAN believes that the future of urban passenger and freight transportation will be electric. eTrucks can exploit their strengths best in the urban environment. They are emission-free locally and thus help improve urban air quality. They are also very quiet — for example, supermarkets could be resupplied at night in the future, thus relieving pressure on daytime traffic. Development spending on electric power trains for delivery trucks and city buses was correspondingly high in 2018. Together with the Council for Sustainable Logistics, MAN put the first nine fully electric MAN eTGM delivery trucks on the road in September 2018 in order to test them comprehensively in daily operations involving Austrian customers. The first MAN eTGM was delivered to a German customer in December 2018. The results of all the test drives will be incorporated into subsequent series development. MAN plans to manufacture a small batch initially; serial production of eTrucks for urban distribution transportation will begin in 2022. Serial production of fully electric city buses will start already in 2020.

MAN also presented the MAN eTGE, an electric version of the new MAN van, at the 2018 IAA Commercial Vehicles trade show. This vehicle went into serial production in 2018.

The MAN CitE concept vehicle, an electric city truck close to serial production that also made its debut at the IAA, is full of many new ideas and creative solutions. This 15-ton vehicle, which was developed in just 18 months, is designed for inner-city distribution transportation. Because drivers of these vehicles need to get in and out up to 30 times a day, the CitE has a low entry height and especially wide doors. In the driver cab, the low seating position and large side windows give the driver outstanding all-round vision.

For the electric city bus market, MAN Truck & Bus has entered into development partnerships with Munich, Hamburg, Wolfsburg, and Luxembourg, among others, to ensure that everyday experiences can be incorporated into series development. MAN also presented a prototype of the MAN Lion's City E close to serial production at the 2018 IAA trade show. This electric bus has a central engine on the powered axle. The batteries are crash-proof and located on the roof to save space. They enable a range of up to 270 kilometers and can be fully recharged in only three hours. In the next step, an electric bus demo fleet will be tested in various European cities in 2020 before serial production of the new MAN Lion's City E finally begins. This comprehensive testing program will ensure the high level of vehicle reliability needed in local public transportation markets.

MAN also showcased the new city bus with a gas drive at the 2018 IAA. The newly developed E18 engine is used in the new Lion's City G. Of all the fossil fuels, natural gas generates the least CO_2 during the combustion process. If the operator decides to use biogas, carbon-neutral vehicle operation becomes a possibility.

In the area of commercial vehicle digitalization and automation, DB Schenker and MAN are the first logistics group and vehicle manufacturer, respectively, to work together to develop networked truck convoys. Since June 2018, platoons have been deployed on the digital test site, a section of the A9 highway between DB Schenker's Munich and Nuremberg sites. This makes MAN the first commercial vehicle manufacturer worldwide to test digitally networked truck convoys in regular operation over several months under real road conditions. Each platoon consists of two trucks. The driver of the first truck sets the speed and direction, while the second vehicle automatically follows closely behind in its slipstream. Platooning provides advantages to customers as a result of lowering fuel consumption and minimizing the risk of accidents. It also represents the first step on the road to automated driving.

In the area of digital innovation, MAN Truck & Bus is offering its customers tailored digital solutions for MAN vehicles under the name MAN DigitalServices. In the future, this will give MAN customers real-time, location-independent access to vehicle data and the analyses derived from it. This will result in recommendations for action specifically tailored to the customers and their vehicles.

MAN won the Truck Innovation Award for 2019 with its “automated driverless safety vehicle on highways” (aFAS). This innovative driverless concept vehicle drives slowly and automatically behind mobile construction sites and follows the truck in front by means of car-to-car communication. This means that the concept complies with automation level 4. This accolade was given for the first time by the jury of the International Truck of the Year (IToY) awards.

In 2018, MAN Latin America focused its development efforts on expanding the breadth of its product portfolio, on meeting future regulatory standards concerning pollutant and noise emissions, and on developing commercial vehicles powered by electric and hybrid power trains. Prototypes of the e-Delivery truck and the e-Flex bus were showcased at the international trade show for commercial vehicles (IAA 2018). The e-Delivery truck has been developed with the concept of a flexible modular architecture which allows simple modifications for different applications for a family of trucks ranging from 3.5 through 14 tons. The AEA (Brazilian Association of Automotive Engineers) has presented MAN Latin America with a technology and sustainability award for the development of the e-Delivery truck.

Key R&D figures

Research and development costs

€ million	2018	2017
Total R&D costs	670	731
of which capitalized development costs	–255	–273
Capitalization ratio in %	38.0	37.4
Amortization of, and impairment losses on, capitalized development costs	99	84
R&D costs recognized in the income statement	**514**	**542**
Ratio to sales revenue in %	4.2	4.9
R&D employees (annual average)	3,132	3,003

The MAN Group also cooperates with external partners within the scope of order-specific R&D activities and on publicly subsidized projects.

Financial control system and value management

Internal management process within the MAN Group

The MAN Group is included in the Volkswagen Group’s internal management process. The starting point for the MAN Group’s internal management is medium-term planning, conducted once per year. This covers a period of five years and forms the core of the Group’s operational planning.

When planning the Group’s future, the individual planning components are determined on the basis of the timescale involved. They include the long-term unit sales plan that sets out market and segment growth, from which the MAN Group’s delivery volumes are derived; the product program as the strategic, long-term factor determining corporate policy; and capacity and utilization planning for the individual sites.

The coordinated results of the upstream planning processes are used as the basis for medium-term financial planning. The MAN Group’s financial planning comprises the income statement, cash flow and balance sheet planning, profitability and liquidity, as well as the upfront investments needed for alternative products and the implementation of strategic options.

The first year of the medium-term planning period is then fixed and a budget drawn up for the individual months. This is planned in detail down to the level of the operating cost centers.

The budget is reviewed each month to establish the degree to which the targets have been met. Important control tools are target/actual comparisons, prior-year comparisons, variance analyses, and, if necessary, action plans to ensure budgetary targets are met. For the current fiscal year, detailed revolving monthly forecasts are prepared for the coming three months and for the full year. These take into account current risks and opportunities. The focus of intrayear internal management is therefore on adapting operating activities. At the same time, the current forecast serves as a potential, ongoing corrective to the medium-term and budget planning that follows on from it.

Key performance indicators within the MAN Group

Sales revenue, operating profit, and the operating return on sales are the most important financial key performance indicators within the MAN Group. The operating return on sales is the ratio of operating profit to sales revenue. In addition, the return on investment (ROI) is used to determine the return on the MAN Group's average invested capital for a particular period. This is calculated as the ratio of operating profit after tax to invested capital. The most significant nonfinancial key performance indicator is vehicle sales.

Operating return on sales

The MAN Group's strategic goal is an operating return on sales of 8% over an operating cycle. The MAN Group's operating return on sales decreased to 2.7% (previous year: 3.2%) in the past fiscal year.

Return on investment (ROI)

€ million	2018	2017
MAN Group annual average invested capital	6,784	6,479
Operating profit [1]	551	566
Operating profit after tax [1]	386	396
ROI in %	5.7	6.1

[1] Including operating profit from discontinued operations of €220 million (previous year: €208 million)

Invested capital is calculated as total operating assets (property, plant, and equipment, intangible assets, assets leased out, inventories, and receivables) less non-interest-bearing liabilities (trade payables, prepayments received, and customer payments received for assets leased out). Prepayments received are only deducted if they have already been used in order processing. Average invested capital is derived from the balance at the beginning and the end of the reporting period.

As the concept of value-based management only comprises our operating activities, assets relating to investments in subsidiaries and associates and the investment of cash funds are not included when calculating invested capital. Interest charged on these assets is reported in the financial result. Given the various international income tax rates of the relevant companies, we assume an overall average tax rate of 30% when calculating the operating profit after tax.

COURSE OF BUSINESS AND ECONOMIC POSITION OF THE MAN GROUP IN 2018

European truck market up slightly year-on-year, considerable improvement in Brazil, sharp increase in the MAN Group's order intake and sales revenue, slight decline in operating profit

Changes in financial reporting

The application of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) became mandatory as of January 1, 2018.

IFRS 9 changes the accounting requirements for classifying and measuring financial assets, for impairment of financial assets, and for hedge accounting. Some of the fair value measurement gains and losses on derivatives, which were previously recognized in the financial result, are now reported directly in other operating income and expenses.

IFRS 15 specifies new accounting rules for revenue recognition. In this context, the way income from the reversal of provisions and accrued liabilities is reported was also adjusted; these items are now allocated to those functions in which they were originally recognized.

The situation described above has led to, among other things, adjustments to prior-year figures in the income statement. Cost of sales, distribution expenses, and other operating income had to be adjusted in connection with the change in the way reversals of provisions are reported. Sales revenue and operating profit were unchanged. The effects of applying the new International Financial Reporting Standards to sales revenue largely offset each other in the reporting period.

Results of operations

Order situation

The MAN Group's order intake rose by 12% in fiscal year 2018 to €13.9 billion (previous year: €12.4 billion). Both MAN Truck & Bus and MAN Latin America contributed to this increase.

The European truck market recorded further slight year-on-year growth in 2018. The Brazilian economy posted slight growth in 2018 for the second year in succession and thus put the previous recession behind it. Demand for trucks also rose in Brazil as a result, ending the year considerably higher than the weak prior-year figure. The Russian market deteriorated during the course of the year and only recorded minimal year-on-year growth. Overall demand for buses in the markets relevant for MAN rose slightly compared with the prior-year period. A total of 146,268 vehicles were ordered from MAN in 2018, up 22% on the previous year. Order intake measured in terms of units rose by 33% at MAN Latin America and by 20% at MAN Truck & Bus.

The MAN Group's order backlog rose to €3.8 billion (previous year: €3.0 billion) and is almost entirely attributable to MAN Truck & Bus. MAN Latin America's order backlog amounted to €0.1 billion (previous year: €0.0 billion).

Sales revenue

The MAN Group's sales revenue rose by 9% in the reporting period to €12.1 billion (previous year: €11.1 billion). Unit sales increased by 20% to 136,517 (previous year: 114,134) vehicles as a result of the positive market development. MAN Latin America's unit sales figure rose by 41%, mainly in Brazil. MAN Latin America's sales revenue grew by 25% year-on-year and was negatively impacted by the weaker Brazilian real. MAN Truck & Bus saw a 14% increase in the number of vehicles sold and raised sales revenue by 8%.

Sales revenue by region

€ million	2018	%	2017	%
Europe	9,099	75	8,271	75
Germany	3,194	26	2,961	27
Western Europe (excluding Germany)	4,022	33	3,543	32
Central and Eastern Europe	1,883	16	1,767	16
Americas	1,467	12	1,233	11
North America	235	2	260	2
South America	1,232	10	973	9
Asia-Pacific	591	5	621	6
Other markets	936	8	962	9
Africa	512	4	477	4
Middle East	424	4	485	4
MAN Group	**12,104**	**100**	**11,087**	**100**

The regional distribution of sales revenue reflects the market and unit sales development outlined above. MAN Truck & Bus's sales revenue in Europe grew by 10%. Growth of 8% was recorded in Germany. Significant sales growth was achieved in all major markets in Western Europe, including the United Kingdom, recording an overall rise of 13%. Growth of 7% was recorded in Central and Eastern Europe. Growth was particularly strong in Poland and the Czech Republic. The increase in sales revenue in South America is attributable above all to the significant rise in MAN Latin America's unit sales in Brazil, in contrast to the significant decrease in unit sales and sales revenue in Argentina. MAN Latin America generated 73% (previous year: 62%) of its sales revenue in the Brazilian market. The MAN Group's sales revenue in the Middle East declined because of a sharp drop in Turkey. In Asia, sales revenue declined in South Korea but grew in China. By contrast, sales revenue in Africa increased by 7%, especially in South Africa.

Operating profit

At €332 million (previous year: €358 million), the MAN Group's operating profit was slightly below the level of the previous year.

MAN Latin America's results of operations improved considerably due to the higher production and unit sales volume. Income from the reversal of liabilities and efficiency gains also had a positive impact. Following the strong losses in previous years, MAN Latin America returned to an operating profit of €28 million in the reporting period (previous year: operating loss of €105 million). By contrast, MAN Truck & Bus's operating profit decreased to €402 million (previous year: €532 million). The reason for the decline was the considerable expenses required to restructure the activities in India. Excluding the associated expenses, MAN Truck & Bus's operating profit was approximately on a level with the previous year. Positive effects from the increase in sales revenue were offset by higher expenses for new products and markets and the intense competition, among other factors. The operating profit of the holding company and parent of the MAN Group deteriorated in the reporting period due to higher project-related expenses.

Operating return on sales

The MAN Group's operating return on sales decreased to 2.7% (previous year: 3.2%) in the past fiscal year. The MAN Group's profitability in 2018 was thus still far below the strategic target of 8%.

Detailed information on business developments and the earnings generated by the MAN divisions is provided in the section of the Combined Management Report entitled "The Divisions in Detail."

Income statement

€ million	2018	%	2017	%
Sales revenue	12,104	100	11,087	100
Cost of sales	–9,904	–82	–8,996	–81
Gross profit	**2,200**	**18**	**2,091**	**19**
Other operating income	426	4	372	3
Distribution expenses	–1,204	–10	–1,203	–11
General and administrative expenses	–645	–5	–608	–5
Net impairment losses on financial assets [1]	–20	0	–	–
Other operating expenses	–425	–4	–294	–3
Operating profit	**332**	**3**	**358**	**3**
Share of profits and losses of equity-method investments	141	1	72	1
Interest income	36	0	50	0
Interest expense	–129	–1	–172	–2
Other financial result	183	2	19	0
Financial result	**231**	**2**	**–31**	**0**
Profit before tax	**562**	**5**	**327**	**3**
Income taxes	–126	–1	–171	–2
Current	–138	–1	–69	–1
Deferred	12	0	–103	–1
Income from discontinued operations, net of tax	250	2	166	1
Profit after tax	**686**	**6**	**321**	**3**

[1] The structure was changed. Prior-year figures were adjusted accordingly.

The MAN Group's sales revenue was up 9% on the previous year. The gross margin declined by 0.7 percentage points. Gross profit nevertheless increased by €109 million.

Distribution expenses remained on a level with the previous year thanks to our strict cost management. Administrative expenses rose at a slower rate than sales revenue. The ratio of distribution and administrative expenses to sales revenue improved by 1.1 percentage points.

The increase in other operating income is mainly attributable to the reversal of social security liabilities. Conversely, there was a significant rise in other operating expenses, resulting primarily from valuation allowances on indirect tax receivables and from expenses in connection with the restructuring of the activities in India.

The financial result improved considerably compared with the previous year. This improvement resulted primarily from the equity-method investment in Sinotruk. On the one hand, the MAN Group's share of Sinotruk's profit increased to €122 million (previous year: €54 million). On the other, an impairment loss of €145 million was reversed because the investee's business recovered. Additionally, MAN recognized a €56 million dividend from Scania in the first half of 2018. Scania did not pay any dividend in the previous year. Net interest income improved slightly, in particular because of lower interest expenses.

The tax rate was 22.4% (previous year: 52.5%). In the previous year, the tax rate was negatively impacted in particular by the nonrecognition of deferred tax assets on losses incurred in Brazil. Further information on the development of the tax rate can be found in the Notes to the Consolidated Financial Statements.

The profit from discontinued operations in the reporting period was a result of the sale of the Power Engineering business as of the end of December 31, 2018. Both MAN Energy Solutions and Renk increased their sales revenue in 2018. Their operating profit was on a level with the previous year. The profit from discontinued operations, net of tax, amounted to €201 million (previous year: €166 million). The gain from the sale of the Power Engineering business amounted to €48 million.

Financial position

MAN Group funding

Bilateral lines with Volkswagen Aktiengesellschaft, Wolfsburg (Volkswagen AG), TRATON SE, and international financial institutions are used for debt funding under market conditions.

The Group currently has access to a perpetual €3.0 billion credit facility from Volkswagen AG, of which €2.0 billion has been utilized. Of the total amount, €1.0 billion is due on March 13, 2020, and bears interest at the rate of 0.42% p.a., and €1.0 billion is due in the short term and bears interest of 0.00% p.a. The unutilized portion of the credit facility is available as a liquidity reserve. There are also short-term variable financing facilities of €464 million at standard market rates made available by TRATON SE. MAN Group companies outside Germany secured local credit lines with banks in the amount of €760 million at standard market, mainly variable, rates and different terms ranging up to approximately seven years. As of December 31, 2018, they had been drawn down primarily by MAN Latin America.

Cash flow

MAN consolidated statement of cash flows (key figures)

€ million	2018	2017
Cash and cash equivalents at beginning of period	**782**	**796**
Profit before tax	562	327
Income taxes paid/refunded	43	–65
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property[1]	290	252
Amortization of, and impairment losses on, capitalized development costs[1]	99	84
Impairment losses on equity investments	6	0
Depreciation of assets leased out[1]	636	610
Change in pension provisions	17	23
Gain/loss on disposal of noncurrent assets and equity investments	20	–13
Share of losses of equity-method investments	–233	–66
Other noncash income and expense	–5	–20
Gross cash flow from continuing operations	**1,435**	**1,132**
Change in working capital – continuing operations	**–820**	**–829**
Change in inventories	–240	–194
Change in receivables	–160	–238
Change in liabilities (excluding financial liabilities)	545	542
Change in provisions	44	–75
Change in assets leased out	–1,010	–865
Net cash used in operating activities – discontinued operations	**–72**	**–34**
Net cash provided by operating activities	**544**	**268**
Payments to acquire property, plant, and equipment and intangible assets (excluding capitalized development costs)	–428	–386
Additions to capitalized development costs	–255	–273
Payments to acquire other investees	0	–1
Proceeds from the disposal of subsidiaries, net of cash disposed	395	0
Proceeds from the disposal of other investees	0	7
Proceeds from asset disposals (other than assets leased out)	53	25
Net cash used in investing activities attributable to operating activities	**–235**	**–628**

[1] Net of impairment reversals

MAN consolidated statement of cash flows (key figures) (cont'd)

€ million	2018	2017
Net cash used in investing activities attributable to operating activities	–235	–628
Net cash used in investing activities – discontinued operations	–184	–181
Change in loans and time deposits	6	296
Net cash used in investing activities	**–413**	**–514**
Loss absorption/profit transfer	–193	99
Repayment of bonds	–	–750
Change in miscellaneous financial liabilities	456	921
Net cash used in financing activities – discontinued operations	–7	–8
Net cash provided by financing activities	**256**	**262**
Effect of exchange rate changes on cash and cash equivalents	–20	–30
Change in cash and cash equivalents	**368**	**–14**
Cash and cash equivalents at end of period	**1,150**	**782**
Net cash flow from continuing operations	**380**	**–326**
Gross cash flow from continuing operations	1,435	1,132
Change in working capital – continuing operations	–820	–829
Net cash used in investing activities attributable to operating activities	–235	–628
Composition of net liquidity/net financial debt at end of period[1]		
Cash and cash equivalents	1,150	782
Securities, loans, and time deposits	36	28
Gross liquidity	**1,185**	**810**
Total borrowings	–4,236	–3,101
Net financial debt	**–3,051**	**–2,291**

[1] "Net liquidity/net financial debt" is calculated as cash and cash equivalents, loans to Group companies, and marketable securities, less financial liabilities.

The statement of cash flows presents cash flows from discontinued operations in a separate line item in operating, investing, and financing activities.

The MAN Group's gross cash flow therefore relates only to continuing operations. It increased year-on-year in 2018, mainly because of the higher profit before tax. Additionally, tax refunds were higher than tax payments in the reporting period and a dividend of €56 million was received from Scania. Scania did not pay any dividend in the previous year.

The increase in working capital attributable to continuing operations was on a level with the previous year. The main contributor to this trend in fiscal 2018 was the increase in receivables and inventories as a result of higher sales volume. Within working capital, the increase in assets leased out was more than compensated for by the depreciation of, and impairment losses on, assets leased out and by offsetting effects in miscellaneous liabilities within net cash provided by operating activities.

Net cash used in investing activities attributable to operating activities was impacted by the sale of the Power Engineering business in the reporting period. The positive effect in the proceeds from the disposal of subsidiaries is attributable primarily to the cash pool receivables that became due in the course of deconsolidating Power Engineering. Payments to acquire property, plant, and equipment, and development costs were largely stable year-on-year.

Net cash flow from the operating and investing activities of continuing operations was €380 million (previous year: €–326 million). A large part of this improvement is due to the deconsolidation of Power Engineering. MAN was also able to improve net cash provided by operating activities by approximately €300 million.

The MAN Group's cash inflows from investments in marketable securities and loans were primarily attributable in the prior-year period to the repayment of intragroup loans extended by MAN SE to MAN Financial Services GmbH, Munich, and its assigned national companies.

At €256 million (previous year: €262 million), net cash provided by financing activities was almost on a level with the previous year. In the year under review, it contained the profit transfer of €193 million for 2017 to TRATON SE (previous year: loss absorption of €99 million). Financial liabilities increased overall compared with the prior-year period, and were mainly owed to TRATON SE in the year under review.

No dividend was distributed. Instead, TRATON SE paid each MAN free float shareholder cash compensation as determined by court of €5.47 per share each year. Since the domination and profit and loss transfer agreement was terminated by the Executive Board of TRATON SE effective midnight (00:00) on January 1, 2019, by way of notice of extraordinary termination, payment of the stipulated cash settlement will be made for the last time for fiscal 2018.

The MAN Group's net financial debt rose by €760 million and amounted to €3.1 billion as of December 31, 2018. This includes cash pool liabilities that fell due in the course of deconsolidating the Power Engineering business.

Capital expenditures

Capital expenditures

€ million	2018	2017
Property, plant, and equipment, and investment property	414	374
Intangible assets	269	286
Investments	0	1
Total	**683**	**661**

Capital expenditures of the MAN Group remained at a high level in fiscal 2018. In view of the challenging economic environment, we are reviewing planned capital expenditures with particular scrutiny and prioritizing them systematically. We are deliberately retaining the necessary capital expenditures that will lead to long-term growth and are capable of improving our operational efficiency.

Capital expenditures at MAN Truck & Bus

€ million	2018	2017
Property, plant, and equipment, and intangible assets	401	354
Capitalized development costs	209	229
Total	**611**	**583**

Capital expenditures for property, plant, and equipment at MAN Truck & Bus in 2018 focused on continuing to restructure and modernize the production facilities, ensuring the optimum preparation of the startup of the new vehicle generation, and safeguarding a high level of plant efficiency and product quality in the long term. Modernization of bodywork production at the Munich plant and the construction of the plastic coating facility at the Steyr plant were in their final phases at the end of the reporting period. Other sites in and outside Germany were adapted to meet the requirements of new products and components. In addition, construction of a new engine test center began in Nuremberg following the completion of the main building at the Munich development center.

To secure its current market position and future growth, MAN Truck & Bus renovated existing facilities and continued its ongoing efforts to strengthen and expand its global sales and service network. New sales and service branches were opened in 2018 and construction of further facilities was initiated.

Capital expenditures at MAN Latin America

€ million	2018	2017
Property, plant, and equipment, and intangible assets	23	29
Capitalized development costs	46	44
Total	**69**	**74**

In fiscal 2018, MAN Latin America again invested primarily in the development of new products. The company's "Consórcio Modular" business model, in which the partner companies are also suppliers and investors, allows less capital to be employed and requires a lower level of investment.

Net assets

€ million	2018	2017
Property, plant, and equipment, and intangible assets	4,023	4,960
Investments	3,556	3,734
Assets leased out	3,847	3,504
Income taxes	516	656
Inventories	2,305	3,397
Trade receivables	1,447	2,171
Other noncurrent and current assets	2,907	1,078
Cash and cash equivalents	1,150	782
Total assets	**19,751**	**20,282**
Equity	5,685	6,125
Pensions and other post-employment benefits	488	590
Financial liabilities	4,236	3,101
Other financial liabilities	3,530	2,851
Provisions	1,150	1,770
Prepayments received	–	655
Income taxes (including provisions for taxes)	523	612
Trade payables	1,437	1,925
Other noncurrent and current liabilities	2,703	2,653
Total equity and liabilities	**19,751**	**20,282**

The introduction of the new IFRSs resulted in a number of changes in the balance sheet structure. These are explained in detail in the "Accounting policies" chapter of the Notes to the Consolidated Financial Statements.

The MAN Group's total assets declined compared with the previous year. Due to the sale of Power Engineering, the corresponding assets of €4,794 million and liabilities of €2,814 million were derecognized as of December 31, 2018. The purchase price receivable of €1,980 million was recognized in other noncurrent and current assets. The prior-period balance sheet still contains Power Engineering.

The rise in property, plant, and equipment and intangible assets, after adjustments for the disposal of the Power Engineering business, was mostly attributable to capital expenditures for new products and the restructuring and modernization of the production facilities.

The decrease in investments reflects the lower carrying amount of the investment in Scania, which declined to €2,807 million (previous year: €3,172 million). On the other hand, the equity-method investment in Sinotruk increased because of positive results and reversals of impairment losses. See the Notes to the Consolidated Financial Statements for further information.

Assets leased out rose, mainly as a result of the increase in sales with buyback obligations at MAN Truck & Bus. The increase in inventories in the remaining Commercial Vehicles business is largely due to an increase in the new vehicle inventory at MAN Truck & Bus. Adjusted trade receivables also rose. To manage liquidity, customer receivables are regularly sold to credit institutes and to Volkswagen Financial Services AG, Braunschweig, and its assigned national companies.

The increase in cash and cash equivalents and financial liabilities is due above all to cash pool receivables from and cash pool liabilities to Power Engineering becoming due. Following the deconsolidation of Power Engineering, they are now reported in the consolidated balance sheet as financial receivables from, or financial liabilities to, affiliated companies. They were eliminated in the prior-period consolidated balance sheet.

Other financial liabilities and other noncurrent and current liabilities include purchase price payments received from sales with buyback obligations at MAN Truck & Bus. These increased due to the higher volume of such sales. This also reflects the higher liability to TRATON SE from profit and loss transfer amounting to €548 million (previous year: €193 million).

Equity decreased to €5,685 million as of December 31, 2018 (previous year: €6,125 million). The consolidated financial statements have been prepared following appropriation of net profit. The net changes recognized in other comprehensive income of €–456 million mainly relate to the lower carrying amount of the investment in Scania and currency translation effects.

The ratio of equity to noncurrent assets increased from 70% to 75%. This is due primarily to the disposal of Power Engineering. The MAN Group's equity ratio decreased slightly as of December 31, 2018, and amounted to 28.8% (previous year: 30.2%).

Unrecognized assets

In addition to the assets recognized in the consolidated balance sheet, the Group also uses unrecognized assets. These include the MAN brand as a significant intangible asset, as well as internally developed patents, employee expertise, and the Group's customer service and sales network. Expenditures on these assets are investments in the future that safeguard market success in the coming years.

See the Notes to the Consolidated Financial Statements for further information in connection with various unrecognized assets under rental and lease agreements.

At the end of the fiscal year, there were unrecognized obligations in the form of contingent liabilities of €1.1 billion (previous year: €0.9 billion) and buyback guarantees (mainly to Volkswagen Group companies) of €2.1 billion (previous year: €1.9 billion). Contingent liabilities relate mainly to contingent liabilities for potential charges from tax risks, which exist for MAN Latin America.

Other financial obligations were entered into, in particular for leases and rental agreements as well as purchase commitments. More information can be found in notes (30), (31), and (32) in the Notes to the Consolidated Financial Statements.

Overall assessment by the Executive Board: encouraging business development, profitability not satisfactory

Forecast versus actual figures MAN Group

€ million	Actual 2017	Original forecast for 2018	Most recent forecast for 2018	Actual 2018	Change 2018 to 2017
Sales revenue	11,087	Slight growth	Slight growth	12,104	Not comparable with forecast
Operating profit	358	Largely unchanged year-on-year	Roughly on a level with the previous year	332	Not comparable with forecast
Operating return on sales (%)	3.2	Slight decline	Slight decline	2.7	Not comparable with forecast

Forecast versus actual figures Commercial Vehicles

€ million	Actual 2017	Original forecast for 2018	Most recent forecast for 2018	Actual 2018	Change 2018 to 2017
Sales (units)	114,134	Moderate increase	Noticeable increase	136,517	20%
Sales revenue	11,085	Slight growth	Slight growth	12,101	9%
Operating profit	434	Slight increase	Slight increase	426	€–8 million
Operating return on sales (%)	3.9	Up slightly on the prior-year level	Up slightly on the prior-year level	3.5	–0.4 percentage points

Power Engineering is reported as a discontinued operation in the 2018 consolidated financial statements, i.e., Power Engineering is no longer contained in the key figures disclosed for the MAN Group. However, the forecasts published in the 2017 Annual Report and the half-yearly financial report also included Power Engineering. The actual development of the MAN Group is not comparable with last year's forecast in this respect.

The following therefore shows the forecast versus actual comparison for the Commercial Vehicles business area, which consisted of a consolidated presentation of MAN Truck & Bus and MAN Latin America in MAN's previous financial reporting.

MAN beat the forecast targets for unit sales and sales revenue in its Commercial Vehicles activities in the 2018 fiscal year. The European truck market improved again slightly year-on-year and thus grew better than expected. The Brazilian commercial vehicles market grew considerably year-on-year and hence stronger than expected. Overall, unit sales increased by 20% in the reporting period and thus faster than expected at both MAN Truck & Bus (+14%) and MAN Latin America (+40%). Sales revenue also rose somewhat more significantly than expected, at 9% for Commercial Vehicles overall, 8% at MAN Truck & Bus, and 25% at MAN Latin America.

By contrast, the goals for operating profit and the operating return on sales in the Commercial Vehicles business area were only reached to a limited extent in the reporting period. We had forecast a slight decline in operating profit at MAN Truck & Bus. However, it decreased significantly because of the high unplanned expenses in connection with the restructuring of activities in India. Excluding these expenses, MAN Truck & Bus's operating profit was roughly on a level with the previous year and thus somewhat better than expected. As forecast, MAN Latin America significantly improved on its operating loss because of the rising unit sales. Income from the reversal of liabilities and efficiency gains also had a positive impact. Overall, operating profit in the Commercial Vehicles business area just fell short of the previous year's level and the operating return on sales declined by 0.4 percentage points.

The MAN Group's profitability in 2018 was still far below the strategic target of 8%. The Executive Board of the MAN Group therefore considers business developments to be positive, while profitability is not satisfactory. The Company therefore continues to focus on resolutely implementing the initiated programs for the future. To ensure future growth and attain profitability goals, it is essential to achieve continuous improvements and operational excellence.

THE DIVISIONS IN DETAIL

MAN Truck & Bus

- **European truck market records slight growth at a high level**
- **Unit sales and sales revenue considerably higher than the prior-year figures**
- **Operational excellence is creating the conditions for a more profitable future**

MAN Truck & Bus

€ million	2018	2017
Order intake	12,640	11,296
Sales revenue	10,815	10,037
Vehicle sales (units)	102,556	89,987
Operating profit	402	532
Operating return on sales (%)	3.7	5.3

Economic environment

The European truck market recorded further slight growth at a high level in 2018. The European market volume in the segment for trucks over six tons amounted to around 369,000 (previous year: 356,000) units. Of the larger volume markets, in particular Germany, France, Poland, and Italy saw further growth, whereas demand declined moderately in the United Kingdom. Outside Europe, the market contracted at a very low level, especially in Turkey. The Russian market deteriorated during the course of the year and only recorded minimal year-on-year growth. In the Middle East, the segment for European manufacturers once again declined significantly. New registrations for MAN Truck & Bus rose to around 61,000 units in the European market for trucks over six tons (previous year: 55,500 units). This saw MAN Truck & Bus increase its market share to 16.5% (previous year: 15.6%).

The European bus market saw positive development in 2018, coming in at 30,500 (previous year: 29,800) units. The Italian, Polish, and Czech volume markets continued to expand materially in the year under review, while demand eased in France, the United Kingdom, Sweden, and Austria. Outside Europe, the Russian market continued to recover. The South African market, in which MAN has been the market leader since 2014, was almost on a level with the previous year. MAN Truck & Bus recorded a 9% increase in new registrations in the European market for buses over eight tons, posting a figure of around 4,400 units. With a market share of 14.5% in 2018, MAN Truck & Bus again noticeably improved upon the prior-year figure (13.4%).

Business developments

Order intake at MAN Truck & Bus rose year-on-year to €12.6 billion in 2018 (previous year: €11.3 billion). Measured in terms of units, order intake was up 20% on the previous year at 112,915 vehicles (previous year: 94,003 vehicles).

The Trucks business recorded an order intake of €10.5 billion (previous year: €9.4 billion). The unit figure rose by 20% year-on-year to 104,605 trucks (previous year: 87,028 trucks). This was mainly driven by positive year-on-year growth in Germany and Poland. The unit figures for the Trucks business also include the MAN TGE van series, for which MAN Truck & Bus received 10,087 (previous year: 3,261) orders in the reporting period.

At €2.1 billion, order intake in the Buses business in 2018 was up 15% on the prior-year figure (€1.8 billion). The unit figure rose significantly year-on-year to 8,310 buses (previous year: 6,975 buses). This was driven by positive growth in Singapore, Norway, and Mexico, among other factors.

MAN Truck & Bus generated sales revenue of €10.8 billion, a year-on-year increase of 8% from €10 billion. At 102,556 vehicles (previous year: 89,987 vehicles), unit sales grew in line with sales revenue.

Sales revenue in the Trucks business rose to €9.1 billion (previous year: €8.5 billion). Unit sales were up 14% on the prior-year figure at 95,352 (previous year: 83,661 trucks). Growth was particularly positive in Germany, France, and Poland. The unit sales figure of the Trucks business included 7,871 MAN TGE vans (previous year: 2,212 vans).

Sales revenue in the Buses business increased to €1.7 billion (previous year: €1.6 billion). 7,204 (previous year: 6,326) buses were sold, equivalent to year-on-year growth of 14%. This was driven by increases in unit sales in Singapore, Germany, and Poland, among other factors.

Operating profit

MAN Truck & Bus's operating profit amounted to €402 million (previous year: €532 million) in the year under review. The operating return on sales was 3.7% (previous year: 5.3%). The reason for the year-on-year decline was the considerable expenses required to restructure the activities in India. As part of its focus on future issues, MAN Truck & Bus decided to cease production and sales of the MAN CLA and to sell the plant in Pithampur. Excluding the associated expenses, MAN Truck & Bus's operating profit was approximately on a level with the previous year. Positive effects from the increase in sales revenue were offset by higher expenses for new products and markets and the intense competition, among other factors. In order to grow profitably in the future, MAN Truck & Bus will continue to concentrate on measures to optimize processes and the cost structure. The focus on continuous improvement and operational excellence is creating the basis for this.

MAN Latin America

- **Further improvement in economic environment**
- **Strong growth in Brazilian commercial vehicles market**
- **Operating profit recorded**

MAN Latin America

€ million	2018	2017
Order intake	1,432	1,190
Sales revenue	1,421	1,141
Vehicle sales (units)	36,362	25,881
Operating profit	28	–105
Operating return on sales (%)	2.0	–9.2

Economic environment

The Brazilian commercial vehicles market recorded strong growth in 2018. Following growth of 1.1% in 2017 and the end of the recession, Brazil's gross domestic product grew by 1.4% in the year under review. Nevertheless, the situation in South America's largest economy remained strained, in part because of political uncertainties. The economic situation in Argentina deteriorated progressively over the course of the year.

New registrations for trucks in Brazil weighing five tons and over grew significantly to 74,421 units in 2018 (previous year: 50,520 units). MAN Latin America recorded 20,242 (previous year: 14,207) new registrations, maintaining a leading position within this segment. The company's market share reached 27.2% (previous year: 28.1%) in the year under review.

The Brazilian bus market also recorded significant growth with 15,081 units in 2018 (previous year: 11,755 units). With 3,417 (previous year: 2,176) new registrations, MAN Latin America improved its market share to 22.7% (previous year: 18.5%), while maintaining its number two position. New investments by the Brazilian government in the school bus program played a relevant role in increasing market demand for buses.

Brazil's commercial vehicle exports decreased slightly in the year under review, primarily as a result of the significant downturn of the Argentinian economy. MAN Latin America secured its position as one of Brazil's leading exporters, with 18.1% (previous year: 17.5%) of the country's commercial vehicle exports.

Business developments

MAN Latin America sold a total of 36,362 commercial vehicles in the reporting period (previous year: 25,881 vehicles). Sales revenue increased to €1.4 billion (previous year: €1.1 billion) due to the noticeable recovery in the Brazilian market. The company sold 23,509 (previous year: 14,669) vehicles in the Brazilian truck market, indicating significant year-on-year growth of 60%. MAN Latin America sold 4,308 bus chassis in Brazil (previous year: 2,233 bus chassis), a significant increase of 93%. MAN Latin America's unit sales outside Brazil decreased by just over 5% to 8,545. The increase of sales volumes in Chile, Mexico, Peru, and selected African countries was unable to offset the significant decline in Argentina completely.

Operating profit

Following the strong losses in previous years, MAN Latin America returned to an operating profit of €28 million in the reporting period (previous year: operating loss of €105 million). Among other factors, this improvement is attributable to the significantly higher sales volume and better margins. Both of these factors improved despite the persistent, intense competition in a market that is still suffering from excess production capacity. The reversal of liabilities also had a positive impact. During 2016, MAN Latin America introduced an extensive program in its production, administrative, and sales areas to improve efficiency and strengthen the company. The measures implemented in the context of this program had a sustainably positive impact.

FINANCIAL STATEMENTS OF MAN SE (HGB)

MAN SE, domiciled in Munich, is the holding company and parent of the MAN Group. Financial management for the MAN Group is performed centrally by MAN SE. MAN SE communicates with the capital markets on behalf of the entire MAN Group.

Business developments

MAN SE's business developments largely correspond to those of the MAN Group and are described in detail in the chapter entitled "Course of Business and Economic Position of the MAN Group in 2018."

MAN SE recorded a profit after tax of €548 million (previous year: €193 million) for fiscal 2018 before the transfer of profit. The improvement of €355 million was primarily due to the higher net income from investments, while negative tax income was an offsetting factor.

Results of operations

€ million	2018	2017
Net investment income	731	179
Net interest income	0	10
Sales revenue	26	22
Cost of sales	–24	–21
Gross profit	**2**	**1**
General and administrative expenses	–50	–52
Other operating income	11	29
Other operating expenses	–34	–31
Income taxes	–112	57
Profit after tax	**548**	**193**
Profit transferred on the basis of a domination and profit and loss transfer agreement	**–548**	**–193**
Net income for the fiscal year	**–**	**–**

Net income from investments improved by €552 million compared with the previous year. This resulted primarily from the income from the disposal of MAN Energy Solutions SE and Renk AG as well as the Scania dividend.

Net interest income deteriorated above all because of a €10 million decrease in tax interest income. General and administrative expenses were reduced by €2 million.

Other operating income declined by €18 million year-on-year. In the previous year, it contained income from subsequent purchase price adjustments for prior-period taxes of a former subsidiary, including interest. Other operating expenses increased by €3 million to €34 million. This resulted mainly from higher project-related expenses.

Net income for the fiscal year before profit transfer amounting to €548 million (previous year: €193 million) was transferred to TRATON SE (formerly Volkswagen Truck & Bus GmbH, Volkswagen Truck & Bus AG, and TRATON AG) in accordance with the domination and profit and loss transfer agreement entered into with TRATON SE in fiscal 2013.

As a result of the domination and profit and loss transfer agreement, MAN SE does not distribute dividends and has not done so since fiscal year 2014. TRATON SE will pay each MAN free float shareholder cash compensation as determined by court of €5.47. Since the domination and profit and loss transfer agreement was terminated by the Executive Board of TRATON SE effective midnight (00:00) on January 1, 2019, by way of notice of extraordinary termination, payment of the stipulated cash settlement will be made for the last time for fiscal year 2018.

Net assets and financial position

€ million	2018	2017
Fixed assets	4,354	5,341
Receivables [1]	2,386	370
Bank balances	260	248
Total assets	**7,000**	**5,959**
Equity	2,125	2,125
Financial liabilities to banks and others	146	203
Miscellaneous liabilities and provisions	4,729	3,631
Total equity and liabilities	**7,000**	**5,959**

[1] Including deferred items and excess arising from the offset of assets and liabilities (fiscal 2017)

Total assets increased by €1,041 million year-on-year to €7,000 million. As of the reporting date, MAN SE's fixed assets primarily comprised shares in affiliated companies (€2,874 million; previous year: €3,955 million) and other long-term equity investments (€1,305 million; previous year: €1,305 million), in particular the shares in Scania acquired in fiscal years 2006 through 2008. Disposals of affiliated companies relate primarily to MAN Energy Solutions SE and Renk AG, which were sold to a subsidiary of Volkswagen AG effective the end of December 31, 2018. The share of total assets attributable to fixed assets fell to 62.2% as of December 31, 2018 (previous year: 89.6%).

Receivables increased by €2,016 million to €2,386 million, primarily because of the receivable from the sale of MAN Energy Solutions SE and Renk AG.

Bank balances from the Group's central financing by MAN SE increased by €12 million to €260 million in the fiscal year.

Total equity did not change compared with the previous year due to profit and loss transfer. The ratio of equity to total assets was 30.4% as of December 31, 2018 (previous year: 35.7%).

MAN SE's capital reserves of €795 million (previous year: €795 million) consist of premiums paid as part of capital increases and the conversion of preferred shares into common shares. MAN SE's retained earnings amounted to €954 million, as in the previous year.

Financial liabilities to banks and others declined by €57 million year-on-year to €146 million (previous year: €203 million). These stem from the MAN Group's central financing, among other sources.

Miscellaneous liabilities and provisions mainly include liabilities to affiliated companies, provisions for taxes, other provisions and liabilities to other long-term investees and investors. The increase in miscellaneous liabilities was primarily attributable to higher liabilities from profit transfer, including income tax allocations, to TRATON SE and to an increase in liabilities to affiliated companies due to intercompany financing arrangements. Other provisions mainly relate to risks in connection with the sale of equity investments, risks in connection with obligations under public law, obligations to employees, and other specific risks.

Net liquidity/net financial debt is calculated as bank balances, receivables from intragroup finance transactions, loans to Group companies, and marketable securities, less financial liabilities to banks and others and less financial liabilities from intragroup finance transactions. MAN SE's net liquidity amounted to €–3,259 million as of December 31, 2018 (previous year: €–3,004 million).

Report on MAN SE's risks and opportunities

MAN SE is the holding company and parent of the MAN Group. The Company's significant opportunities and risks are therefore directly related to the significant opportunities and risks of its operating subsidiaries. As the parent of the MAN Group, MAN SE is integrated into the Group-wide risk management system. See the Report on Risks and Opportunities for further information. This chapter also contains the description of MAN SE's internal control system required by section 289 (4) of the *Handelsgesetzbuch* (HGB — German Commercial Code).

Additional information

The principles governing the remuneration system for members of the Executive and Supervisory Boards are explained in the remuneration report, which forms part of the management report in accordance with section 315 of the HGB. The remuneration of the members of the Executive and Supervisory Boards is reported individually in the sections entitled "Remuneration of the Executive Board" and "Remuneration of the Supervisory Board" in the Notes to the Consolidated Financial Statements. MAN SE employed 230 people as of December 31, 2018 (previous year: 195).

Outlook

MAN SE is the holding company and parent of the MAN Group. All significant wholly owned investees in Germany — in particular, MAN Truck & Bus AG as material division — are linked to MAN SE by way of domination and profit and loss transfer agreements. As a result, their earnings are recognized directly by MAN SE. The expected business developments described in the outlook for the Group will continue to influence MAN SE's earnings. The outlook for the Group therefore also applies to MAN SE. In view of the positive expectations of the Group's performance indicators, a considerably lower profit before tax is expected as a result of the loss of income from the sale of investees. See the Report on Expected Developments for further information.

REPORT ON RISKS AND OPPORTUNITIES
(INCLUDES REPORT IN ACCORDANCE WITH SECTION 289 (4) OF THE HGB)

Managing risks and opportunities is an integral part of corporate management and business processes. In 2019, the focus will be on market risk.

Company-wide risk management system

Operating a business entails constant exposure to risks. The MAN Group defines risk as the danger that events or decisions and actions will prevent the Company from achieving defined goals and/or successfully implementing strategies. The Company consciously assumes risks with a view to exploiting market opportunities if it expects this to contribute sufficiently to increasing its enterprise value. As a basic principle, risks that could jeopardize the Group's continued existence may not be entered into or, if unavoidable, must be minimized by taking appropriate measures. This requires an effective risk management system that is tailored to its business needs and quickly provides the information necessary for its management.

The MAN Group's risk management system is an integral part of its corporate management and business processes. The core elements of the system are corporate planning (including the intrayear review process), opportunity and risk management, Volkswagen AG's standard governance, risk, and compliance management process (standard GRC process), the internal control system, and the compliance management system.

One of the objectives of corporate planning is to identify and assess opportunities and risks at an early stage so that appropriate measures can be taken. Opportunity and risk management is configured at all levels of the Group to quickly provide up-to-date and relevant information on the status of significant event-related risks and opportunities and the efficacy of the measures taken. The standard GRC process covers the main recurrent systemic risks inherent in the respective business model. In addition, the risk management and control measures taken are documented and their efficacy is tested at management level. The internal control system focuses on monitoring and managing risks in a targeted manner, particularly those with regard to the efficacy of business processes, the propriety and reliability of the financial reporting, and legal compliance. The MAN compliance management system addresses white-collar crime (especially combating corruption, preventing money laundering, and terrorism financing) and antitrust law issues. To this end, MAN developed a Group-wide integrity and compliance program that prevents or uncovers compliance violations as quickly as possible and deals with these promptly and efficiently.

Due to the sale of Power Engineering effective the end of December 31, 2018, the related operating risks are no longer part of the MAN Group's risk profile. As a result, risks in the two-stroke engine business in the market risk field, risks from long-term customer contracts in the product risk field, and risks from long-term construction contracts in the process risk field are no longer included.

Risk management organization

Overall responsibility for setting up and maintaining an appropriate and focused risk early recognition system lies with MAN SE's Executive Board, which has defined the scope and focus of the risk management and internal control system based on the Company's specific requirements. The Group Policy entitled "Central Risk Management of the MAN Group" ("Group Policy") provides the framework for a common understanding of the risk management system throughout the Group and contains guidelines on organizational structure, processes, and reporting. Divisional management is responsible for ensuring that all Group companies are integrated into the opportunity and risk management and internal control systems in accordance with the Group Policy. Inclusion in the standard GRC process is subject to Volkswagen AG's materiality criteria, among other conditions. Compliance with the requirements of the risk management system is verified by the Corporate Audit function.

Organizational structure

The Governance, Risk & Compliance function of MAN SE is responsible for the Central Risk Management System of the MAN Group. The organizational structure of the risk management and internal control system is based on the MAN Group's management hierarchy. Roles and responsibilities and committees have therefore been put in place both at Group level and in the divisions. The MAN Group's divisions and material companies have officers responsible for opportunity and risk management, the internal control system, and the standard GRC process. These ensure that the processes set out in the Group Policy are implemented. They also play a part in the continuous development and improvement of the risk management system. At both the division and Group levels, cross-functional GRC boards have been set up to act as central supervisory, management, and oversight bodies for the risk management and internal control system.

Opportunity and risk management processes and standard GRC process

The quarterly standard opportunity and risk management process contains identification, measurement, management, monitoring, and communication phases. In this context, risks and opportunities are classified as either short-term, i.e., up to the end of the fiscal year, or as long-term, i.e., up to five years. They are assessed in terms of their probability of occurrence and impact on a gross and net basis, with the net assessment factoring in any implemented measures that mitigate the risk in question. The projected operating profit of the relevant organizational unit is used to evaluate the materiality of such a net assessment. Risk managers in the divisions define and implement risk mitigation measures and review their efficacy. Uniformly defined risk fields allow the Group to promptly identify and actively manage any concentration of risk.

The annual standard GRC process has five main process steps, which follow on from each other in a circular structure. The scoping phase is aimed at identifying the companies to be incorporated into the standard GRC process in accordance with specified criteria. Relevant systemic risks are assessed, taking countermeasures into account, i.e., as part of a net assessment on the basis of the expected probability of occurrence and various (financial and nonfinancial) risk criteria. The documentation of countermeasures and management controls and the review of their effectiveness are also part of the standard GRC process. Any weaknesses identified in this process are reported and the measures to rectify them are tracked.

The divisional GRC boards assess the current risk position by discussing and comparing key risks and opportunities as well as by monitoring measures and reviewing their effectiveness. The MAN Group's GRC Board then assesses the Group's risk position on the basis of these key risks and opportunities and resolves measures to manage and mitigate risk. Discussion focuses on the risk causes and measures.

In addition, the risk management system is continually enhanced to reflect changed conditions and to further increase its efficacy across all levels of the Company.

Reporting

The risk position, consisting of opportunities and risks, systemic risks (reported annually), and the appropriate risk management measures, as well as material control weaknesses and measures to rectify such weaknesses are reported in the GRC boards to the divisional executive boards and the Executive Board of MAN SE on a quarterly basis. In addition, at the meetings of its Audit Committee, the Supervisory Board is regularly briefed on the MAN Group's risk position and on the effectiveness of the Group's internal control system.

Accounting-related risk management and internal control system

As a rule, opportunity and risk management, the internal control system, and the standard GRC process also comprise both accounting-related processes and all risks and controls with respect to financial reporting as their integral components. This relates to all parts that could have a significant effect on the consolidated financial statements. As part of opportunity and risk management and the standard GRC process, the impact of any risks identified on the consolidated financial statements is assessed and appropriate risk management and control measures are taken.

The internal controls focus on limiting the risks of material misstatement in financial reporting and risks arising from noncompliance with regulatory standards or from acts of deception, as well as on minimizing operational/economic risks (e.g., threats to assets as a result of unauthorized operational decisions or obligations entered into without authorization). Accounting-related controls must provide sufficient assurance that the Group accounting process is reliable and complies with IFRSs, the HGB, and other accounting-related rules and laws.

The MAN Group has structured its existing internal control system and documented it uniformly throughout the Group in accordance with the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to allow it to systematically assess the effectiveness of its internal controls. The documentation covers all standard business processes, including the processes relevant for preparing the financial statements together with the necessary controls, as well as controls relating to any identified business-specific risks. The scope of the documentation is determined by those companies that are significant for the consolidated financial statements or exposed to increased risk due to qualitative characteristics. It is reviewed annually on the basis of defined criteria.

The key elements of risk management and control in financial reporting in the MAN Group are the clear allocation of responsibilities and controls in the preparation of financial statements, transparent requirements in the form of guidelines for accounting and preparing financial statements, appropriate rules governing access to the IT systems that are relevant for the financial statements, and the clear assignment of responsibilities when using external specialists. The dual control principle and the separation of functions are also important principles in the accounting process and are implemented within the MAN Group's internal controls.

The effectiveness of accounting-related internal controls is assessed at least once a year, primarily during the preparation of the financial statements. Identified control weaknesses and agreed measures to rectify them are covered in the quarterly report in the GRC Board. In addition, the Corporate Audit function assesses the propriety and security of accounting-related internal controls and the corresponding management and monitoring processes.

The internal control system is regularly reviewed with regard to the completeness, appropriate design, and effectiveness of the existing controls with the aim of ensuring compliance with existing regulations that are aimed at reducing process-related and organizational risks at all levels of the MAN Group.

Opportunities and risks

Significant opportunities and risks that may have an impact on the MAN Group's net assets, financial position, and results of operations are classified into five risk fields: markets, products, processes, employees, and finances.

Markets

In the medium to long term, the MAN Group sees opportunities for all divisions to achieve profitable growth in the transportation markets. The underlying global economic trends are expected to continue. In particular, these include continued, albeit moderate, economic growth, value chains based on an international division of labor, and the resulting high level of global transportation volumes. MAN continuously works on leveraging these market opportunities worldwide as part of its strategy.

In our view, volatility on the financial markets, increasing protectionist tendencies, and structural deficits are the main risks to the continued growth of the global economy. They pose a threat to growth in some advanced economies and emerging economies. The transition from an expansionary to a more restrictive monetary policy worldwide also harbors risks in the overall economic environment. Private and public sector debt remain high in many places; this hinders growth prospects and can trigger negative market reactions. Declining growth in key countries and regions often has an immediate impact on the state of the global economy and therefore poses a central risk. In particular, the United Kingdom's departure from the EU in a "no-deal" Brexit and other trade policy measures such as tariffs would have a negative impact.

Economic growth in some emerging economies is overshadowed, in particular, by dependence on energy and commodity prices and capital imports, as well as by socio-political tensions. Corruption, inadequate government structures, and a lack of legal certainty also give rise to risks.

Geopolitical tensions and conflicts are another significant risk factor for the growth of individual economies and regions. Local trends can also impact the global economy due to the high level of interconnection. An escalation of the conflicts in Eastern Europe, the Middle East, or in Africa could distort the energy and commodity markets around the world and intensify migration trends, for example. Additional economic strain could result from an intensification of the situation in East Asia. The same applies to armed conflicts, terrorist activities, or the spread of infectious diseases, which could lead to unexpected market reactions in the short term.

Overall, we do not expect a global recession in 2019. Due to the risk factors listed, however, the possibility of a decline in global economic growth or a period of below-average growth rates cannot be ruled out.

Forming part of the capital goods industry, MAN is additionally exposed to fluctuations in the investment climate. Even small changes to growth rates, growth forecasts, and government investment incentives can lead to significant changes in the demand for capital goods in the markets relevant for the MAN Group, or orders being canceled. Among other things, flexible production concepts and cost flexibility through temporary work, flextime accounts, short-time working, and the option of structural adjustments enable MAN to counter economic sales risks. Structural adjustments may involve substantial nonrecurring expenses.

The macroeconomic environment may also give rise to opportunities for MAN if actual developments differ from expected developments in a positive way.

Further risks result from the possibility that protectionist efforts, minimum local content requirements for the proportion of domestic production in individual countries, and changes in competitive conditions in the MAN Group's sales markets may have an adverse effect on projected growth. In particular, the failure to achieve the required degree of localization may result in additional import duties or penalties. Furthermore, the MAN Group is subject to competitive and price pressure in a number of markets, which may lead to a deterioration in the profit margins that can be achieved.

Changes in legislation, taxes, or customs duties, or in environmental regulations in individual countries may also entail risks to MAN. MAN continuously monitors and assesses the economic, political, legal, and social environment so that the resulting opportunities and risks can be promptly incorporated into corporate decisions.

Products

As a leading supplier of advanced technology, it is the MAN Group's mission to develop and launch technologically superior and highly cost-effective products that are of outstanding quality. Abandoning this mission would pose an unjustifiable risk to MAN's market position. During the product development phase, there is a considerable risk that budgeted costs will be exceeded. The rollout of new products involves both conceptual and market risks, which MAN manages through a careful strategic planning process based on an analysis of trends in the market and business environment. The resulting product plans are used to manage our extensive research and development activities. One example of this is MAN Truck & Bus's electrification strategy. The company presented a concept study of the CitE, a fully electric delivery truck for inner-city distribution transportation, at the IAA Commercial Vehicles trade show in Hanover in September 2018. MAN Truck & Bus also delivered the first electric trucks to nine partners of the Austrian Council for Sustainable Logistics for practical testing.

MAN manages risks arising from changes to environmental regulations such as the tightening of emission standards by expanding its product portfolio as appropriate and modifying existing products or production processes. This can lead to increased expenses.

Starting in 2019, manufacturers of heavy-duty trucks in the European Union must meet new requirements for CO_2 measurement and monitoring. This also includes reporting CO_2 emissions to EU authorities by means of a standardized methodology called VECTO (Vehicle Energy Consumption Calculation Tool). In addition, in May 2018 the European Commission published a draft proposal to reduce CO_2 emissions for heavy-duty trucks with a gross vehicle weight of more than 16 tons. The draft proposes a two-stage reduction in greenhouse gas emissions in order to reach the targets set out in the Paris climate agreement. Based on the emission figures from 2019, the aim is to reduce emissions for heavy-duty trucks over 16 tons by 15% up to 2025 and by 30% up to 2030. The current proposal also contains penalty payments if the limits are exceeded. In November 2018, the European Parliament further tightened the Commission's proposal and increased the CO_2 reduction targets to 20% by 2025 and 35% by 2030. The position of the Environment Council, consisting of the EU environment ministers, issued at the end of December 2018 largely follows the Commission's proposal, especially with regard to the reduction targets of 15% by 2025 and 30% by 2030. There will be further negotiations in early 2019 between the European Council, the European Parliament, and the European Commission as part of the trilogue procedure before the details of the CO_2 rules for heavy-duty trucks are finalized. MAN Truck & Bus already started to plan its product portfolio for the future in order to be able to react to the corresponding thresholds. Examples include the electrification of city buses and trucks for distribution transportation as well as the development of other options to cut carbon emissions across the entire fleet by optimizing conventional drive types, developing fuel-saving components, and zero-emission vehicles.

Products that have already been launched pose a risk in relation to the product quality expected by customers. Substandard quality may result in manufacturer's guarantee, statutory warranty, and ex gratia repair costs as well as the loss of market share or lower product margins. In extreme cases, product liability and compensation claims may be made. The MAN Group starts to identify and limit these risks right from the product gestation stage. A standardized product gestation process (PGP) ensures that only properly functioning and reliable product concepts move on to the next stage of development. Nevertheless, quality risks and unplanned cost overruns may arise in the course of new product startups. Suppliers and their products are required to undergo a strict approval process in order to safeguard the Company's high quality standards. After production has started, defined quality assurance measures within the production process ensure that manufacturing defects are promptly identified and eliminated. During use, any defects are collected, analyzed, and rectified in collaboration with the service establishments.

During the industrial manufacturing of our products, accidents or technical faults in production facilities may cause hazardous substances to contaminate water, soil, and air. We have taken a variety of preventive and detection measures to counter this. They include preventive plant maintenance and servicing, regular checks by qualified personnel, on-site inspections, risk avoidance plans, hazardous substance management, and plant fire departments.

The MAN Group's international presence and large number of products and services create a diversified economic base that offsets the risks of dependence on key customers or individual products and markets. However, this also exposes the Group to risks arising from breaches of MAN patents by third parties, or the unauthorized disclosure of company-specific MAN expertise by third parties. MAN therefore monitors the sales markets and takes legal steps to protect the Company's expertise if necessary.

At MAN Truck & Bus, buyback obligations pose a risk if the amount obtainable from the future sale of a used vehicle in the market changes significantly from expectations at the time the contract was concluded. In cases where guarantees or guarantee obligations form an integral part of the customer contracts, there is a risk that an unjustified claim will be made. This risk is combated by formulating contracts carefully.

Processes

The MAN Group considers the continual optimization of its development, purchasing, production, sales, and administration processes to be an ongoing task in order to enhance the efficiency of these processes and to counter the cost risks in these areas. For example, it operates a preventive and continuous supplier monitoring system to identify risks from delivery delays or supplier defaults at an early stage and to mitigate the effects. It also works vigorously and systematically to improve underlying processes with an eye toward optimizing working capital employed.

The MAN Group is involved in various legal disputes and legal proceedings in connection with its Group-wide business activities. These give rise to risks, some of them considerable. In each case, MAN reviews the legal situation, with the support of external legal advisers as appropriate, to defend itself against unjustified claims or assert its own claims. See "Litigation" for further details.

The MAN Group's business processes are intensively supported, and in some cases enabled, by information technology. Besides improving efficiency, this also gives rise to risks. Parts of the infrastructure may fail as a result of accidents, disasters, technical faults, or cyberattacks, thereby impairing business processes or bringing them to a complete standstill. There is also the risk of unauthorized access, theft, or the destruction or other misuse of business data and information. The resulting financial damage and loss of image may affect individual MAN companies or even the entire MAN Group. In order to ensure the availability, integrity, and confidentiality of information so as to mitigate and prevent risk, MAN uses a risk-based information security management system, as well as a combination of the latest hardware and software technologies, effective IT organizational mechanisms, and a continuously enhanced IT-related internal control system. The centralization and selective sourcing of IT tasks and the systematic introduction of IT service management processes in accordance with the ITIL (IT Infrastructure Library) standard for the organization of IT processes help ensure that business processes are efficiently supported. By organizing information security on the basis of the internationally recognized ISO 27001 standard, the MAN Group has significantly improved the transparency and reliability of its IT processes and IT infrastructure.

When the General Data Protection Regulation (GDPR) took effect, the requirements for processing personal data and documenting how personal data is handled grew massively. MAN tackles these challenges with the help of its established and further reinforced data protection organization, an integrated data protection management system, as well as concrete GDPR implementation projects that also entail comprehensive communication and training measures. Despite corresponding precautions and control measures, however, it cannot be fully ruled out in the area of data protection that misconduct by individual employees or external attacks lead to data protection breaches. There is also a risk that, following inspections by data protection supervisory authorities, it will be necessary to implement improvements or that individual companies of the MAN Group will be fined.

The internal control system plays a key role in all business processes, including the accounting process. It is focused on ensuring compliance with the relevant regulations and helping to reduce risks and thus protect assets.

Employees

Specialist employee training is an important concern for MAN as a company. Unique selling points that set a company apart from the competition can only be achieved with first-class products and a customer-specific offering of product-related services. The opportunities for the MAN Group lie in the ongoing specialist training of all its employees around the world, from vocational trainees to executives. They are fundamental to sustained, trust-based customer relationships with repeated business success in all markets.

Through the MAN Academy, we ensure the same skills and quality standards in vocational training and human resources development as well as in training for vocational groups.

International training and development on offer have a positive impact on customer satisfaction, quality, and sales revenue in all divisions.

MAN is actively monitoring the changes in the workplace and any new technical expertise requirements resulting from the digitalization of working processes. The first new offerings for employees have already been developed for this purpose. For example, the MAN Future Lab offers the employees a holistic approach to an innovative working world.

A breach of laws or regulations by employees or managers, either intentionally or as a result of gross negligence, would expose the MAN Group to considerable risk. MAN's compliance management system employs a wide range of measures to manage risks relating to corruption, antitrust law, money laundering, and terrorism financing. In particular, these include the Code of Conduct, compliance policies and training, the Compliance Helpdesk, the "Speak up!" whistleblower portal, and regular compliance risk assessments and communication measures.

Finances

Because of its business activities and international nature, the MAN Group is exposed to considerable market, liquidity, and credit risk. It manages these risks — which also represent opportunities due to market fluctuations — using a Group-wide financial risk management system. Risks also result from changes in value recognized in profit or loss from investees and pension obligations.

Market risk comprises currency, interest rate, and commodity price risk. If MAN companies carry out transactions in a currency other than their functional currency, they are exposed to currency risk. The MAN Group therefore largely hedges currency risk arising from contracts, receivables, and liabilities, and partly hedges currency risk arising from forecast transactions. The inclusion of subsidiaries or associates in countries outside the eurozone in the consolidated financial statements represents a risk as a result of currency translation. As a general rule, MAN does not use derivatives to hedge these translation risks. Interest rate risk results from interest rate-sensitive assets and liabilities. The goal of interest rate risk management is to largely reduce these risks through the use of derivative financial instruments. Furthermore, the manufacture of the MAN Group's products requires commodities. Price trends on the commodity markets or price escalation clauses in supplier contracts may entail commodity price risks. These risks are managed through long-term supplier contracts, price escalation clauses in customer contracts, and targeted commodity price hedging in the banking market.

Liquidity risk describes the risk that the MAN Group will have difficulty in meeting obligations associated with financial liabilities. To ensure liquidity, cash inflows and outflows are continuously monitored and managed. In addition, changes in the MAN Group's liquidity are monitored using a detailed financial plan. Where permitted by law, financial management for the operating units is performed centrally, to a large extent using a cash pooling process. For external financing purposes, the opportunities available on the financial market are tracked continuously so as to ensure the MAN Group's financial flexibility. Its integration into the Volkswagen Group also enables the MAN Group to draw on intragroup financing.

The MAN Group is also exposed to credit risk. This is the risk that a party to a contract will fail to meet its contractual obligations as a result of its own financial situation or the political environment, thereby causing a financial loss for the MAN Group. This country and counterparty risk is reduced through the careful selection of business partners, through appropriate contractual and payment terms, and through guarantees and documentary credits. In addition, a central cash management function and limit allocation system are used to distribute investments of cash funds across multiple prime-rated financial institutions.

Further information on market, liquidity, and credit risk management can be found in note (35) in the Notes to the Consolidated Financial Statements.

The MAN Group is exposed to a risk of impairment affecting profit or loss if there are indications that equity-method investments are impaired.

Further information can be found in note (17) in the Notes to the Consolidated Financial Statements.

In order to reduce the financial risks inherent in defined benefit pension plans, and in some cases as a result of legal regulations, the MAN Group's defined benefit obligations are largely funded through pension plan assets that are ring-fenced from its business assets. Further information can be found in note (26) in the Notes to the Consolidated Financial Statements.

The MAN Group's planning is based on the assumptions made by the MAN Group's management. These assumptions relate to business developments or other external factors that are difficult to predict or cannot be influenced by MAN, as well as measures, some of which still have to be implemented. There is therefore a risk that the planning assumptions may be incomplete or incorrect, and that a variance between the planned and actual outcome may arise. Opportunities for MAN could materialize if actual developments differ from expected developments in a positive way.

Executive Board's assessment of the Group's risk and opportunity position

Due to the sale of Power Engineering effective December 31, 2018, the related operating risks are no longer part of the MAN Group's risk profile. As a result, risks in the two-stroke engine business in the market risk field, risks from long-term customer contracts in the product risk field, and risks from long-term construction contracts in the process risk field are no longer included.

As in the previous year, market risk continues to outweigh the other risk fields in the short-term risks. There have been no significant changes to the overall risk position. There has been no change in the relative importance of the individual risk fields compared with the previous year. As in the previous year, the market risks are risks in margin and unit sales development, as well as uncertainty in the relevant markets. Among financial risks, future currency developments are also an area of significant uncertainty, as in the previous year. In the same way as in the previous year, product-related risks primarily include excess costs in product and new product development. Also as in the previous year, the main process-related risks arise from legal disputes. As before, risks in the employee risk field are of minor significance. The opportunities identified may be able to only partially offset the risks. With regard to the risks reported on in the MAN Group's GRC Board, the Executive Board is convinced that there are no major risks in the divisions that are not covered individually or overall by the projected operating profit on the basis of the net assessment performed. This also applies to risks for which a higher gross impact was calculated since risk mitigation measures were taken for these or their probability of occurrence was assumed to be low.

On the basis of the risk management system established by the MAN Group, the Executive Board has determined that, at the present time, there are no identifiable risks that could have a material and long-term adverse effect on the net assets, financial position, and results of operations of the MAN Group. The risk management system introduced by the Group and the related organizational measures allow the Executive Board to identify risks rapidly and initiate appropriate measures. Given the uncertainty surrounding developments in some areas, activities in 2019 will continue to focus on market risk management.

Litigation/legal proceedings

In 2011, the European Commission launched an antitrust investigation into suspected antitrust violations in the European commercial vehicles business and sent MAN and all other commercial vehicle manufacturers affected the statement of objections in November 2014, informing them of the allegations brought forward against them. With its settlement decision in July 2016, the European Commission imposed penalties on five European commercial vehicle manufacturers for "collusive arrangements on pricing and gross price increases in the European Economic Area [...] and the timing and the passing on of the costs for the introduction of emission technologies for medium and heavy trucks required by EURO 3 to 6 standards" from January 17, 1997, through January 18, 2011 (for MAN: until September 20, 2010). MAN's fine was waived in full because it had notified the European Commission about the irregularities as a whistleblower.

A number of direct or indirect customers who purchased or leased trucks have initiated or joined court proceedings, inter alia, against one or more MAN companies, which are addressees of the 2016 decision and/or other MAN Group companies, in various jurisdictions. As is the case in any antitrust proceedings, further lawsuits for damages may follow.

These proceedings vary considerably in scope: while some plaintiffs may have only purchased a single truck, other cases concern a multitude of trucks. Other customers may have assigned claims to so-called claim vehicles which "bundle" possible damages claims of various customers into a single claim, or may have joined a claim as co-plaintiffs. The vast majority of proceedings are still in the early stage.

In three proceedings, the Regional Court of Hanover rendered "judgments on the merits of the claim" (*Grundurteile*) without resolving the issue of whether any damages were, in fact, sustained. In all three cases, the MAN defendant has appealed the judgments to the competent Higher Regional Court (*Oberlandesgericht*) Celle. Most recently, the Regional Court of Dortmund dismissed a claim against MAN for lack of substantiation for the alleged damages claims.

Outside of Germany, proceedings for purported damages in relation to the Trucks case have been initiated against MAN, inter alia, in Austria, Belgium, France, Hungary, Ireland, Italy, Northern Ireland, Norway, and Spain. By way of example, a number of proceedings of claim vehicles, combining purported damages claims of numerous customers who assigned their claims to the respective claim vehicle, are currently pending in the Netherlands. Furthermore and apart from a small number of individual claims, there are two applications for certification of class actions in England: one by the Road Haulage Association, which was addressed, inter alia, against MAN, and one by UK Trucks Claim Limited, which had not been addressed against MAN, but in which MAN has intervened. In either case, the classes have not yet been certified. Another application for certification of a class action against the five addressees of the 2016 decision as well as Scania is currently pending in Israel before the District Court of Lod. Again, the class has not yet been certified.

In Spain, six claims have been dismissed or the proceedings have been abandoned or closed. None of these decisions have been appealed in substance for now. In Hungary, four judgments have been passed dismissing the respective claims of clients due to lack of jurisdiction of the Hungarian court. All four decisions have been overturned by the second instance court. In Norway, the Oslo District Court confirmed its jurisdiction to hear the claims of Norwegian claimants against all five addressees of the 2016 decision. All truck manufacturers appealed this decision.

In Belgium, the Commercial Court of Ghent has rendered a judgment on the merits by which it rejects liability of Belgian MAN Truck & Bus N.V. for conduct in connection with the Trucks case, but in principle accepts liability of MAN SE. The court has commissioned an expert to assess if, and to what extent, the conduct may have caused damages to the plaintiff. The judgment is appealable.

The Brazilian tax authorities initiated tax proceedings against MAN Latin America with regard to the assessment of the tax effects of the acquisition structure chosen in 2009 for MAN Latin America. In December 2017, an administrative court ruled against MAN Latin America following an appeal. MAN Latin America took legal action against this ruling by recourse to regular courts in 2018. Because of the potential range of punitive surcharges plus interest that may be applied under Brazilian law, the best estimate of the risk in the event that the tax authorities are successful in asserting their position entails a degree of uncertainty. Nevertheless, a positive outcome is still expected for MAN Latin America. In the event of an adverse outcome, the risk for the total contested period starting in 2009 could be approximately €683 million. This assessment is based on the accumulated amounts at the reporting date for the claimed tax liability including the potential expected punitive surcharges, as well as accumulated interest, but excluding any future interest, and without discounting any cash flows.

In addition to the issues described above, MAN is involved in various legal disputes and legal proceedings in connection with its Group-wide business activities. Although any negative decisions in such cases could have a material effect on the Company's results in a particular reporting period, MAN does not believe that they could have a material adverse effect on its net assets, financial position, and results of operations. MAN does not tolerate compliance violations. Neither corruption nor breaches of competition law are tolerated, encouraged, or accepted by MAN.

No disclosures in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) are made on certain legal disputes if the Company concludes that these disclosures could seriously prejudice the outcome of the legal proceedings in question. At the present time, the MAN Group does not expect these proceedings to have any material adverse effect on its net assets, financial position, and results of operations.

REPORT ON EXPECTED DEVELOPMENTS

Weaker global economic growth; 2019 sales revenue slightly above the previous year's level; noticeable increase in operating profit

In the following, we describe the expected future development of the MAN Group and the general framework for its business activities. Risks and opportunities that represent a departure from the forecast trends are presented in the Report on Risks and Opportunities.

Slightly weaker global economic growth

Our planning is based on the assumption that the global economic growth will slow in 2019. We continue to see risks in protectionist tendencies, volatility on the financial markets, and structural deficits in individual countries. In addition, persistent geopolitical tensions and conflicts will weigh on growth prospects. We therefore believe that growth in both the advanced and the emerging economies will be weaker than in 2018. We expect the emerging Asian economies to record the highest growth rates.

Economic growth in Western Europe is likely to slow in 2019 compared to the year under review. The resolution of structural problems as well as the unknown effects of Brexit continue to present major challenges. German gross domestic product will probably grow at a slower pace in 2019 than in the reporting period. The situation on the labor market is likely to remain stable and support private consumption. We expect lower growth rates for Central Europe in 2019 than those recorded in the past fiscal year. By contrast, the economic situation in Eastern Europe should continue to stabilize, provided the conflict between Russia and Ukraine does not intensify. Russian economic growth will probably slow somewhat.

We assume that the economic situation in the U.S.A. will remain stable in 2019. However, GDP growth is set to be lower than in the reporting period. The U.S. Federal Reserve will likely implement further interest rate hikes over the course of the year 2019. Growth in Canada should be on a level with the previous year, while Mexico is likely to see growth slow further.

The Brazilian economy will, in all likelihood, further stabilize in 2019 and record slightly stronger growth than in the year under review. In the face of persistently high inflation, the economic situation in Argentina is likely to remain strained.

China's economic growth will probably remain at a relatively high level in 2019, but will be slower than in previous years in light of the trade policy disputes with the U.S.A.

European truck market down slightly, tangible increase in South America

We expect growth in the European truck market to decline slightly overall in 2019 compared with the year under review. For Western Europe, we anticipate that demand will decline slightly in 2019. We expect the German truck market to be slightly below the level of the previous year. We are also expecting a slight decline in demand in the markets of Central and Eastern Europe. We are predicting a significant recovery in demand in Russia in 2019. We believe that demand for trucks in the South America region will rise noticeably in 2019.

In the bus markets relevant to MAN, we are also anticipating demand to be slightly above the prior-year level in 2019. We expect the market to grow slightly in Western Europe. Demand is set to decline sharply in Central and Eastern Europe. New registrations in South America should be moderately higher year-on-year.

Executive Board's sales revenue and earnings expectations

Based on the macroeconomic trends and the development of the markets relevant to the MAN forecast above, MAN SE's Executive Board currently expects the following:

The MAN Group's sales revenue will probably increase slightly year-on-year in 2019. We believe that unit sales and sales revenue will be essentially constant at MAN Truck & Bus. Unit sales and sales revenue will probably record a tangible increase at MAN Latin America. The MAN Group's operating profit and operating return on sales will improve noticeably in 2019 compared with the previous year. Operating profit will improve tangibly at MAN Truck & Bus because the previous year's figure was negatively impacted by the expenses in connection with the restructuring of the activities in India. A slight volume-driven increase in operating profit is expected at MAN Latin America.

The new financial reporting standard IFRS 16 (Leases) has been applied to our forecast for fiscal year 2019. We do not expect this change to have a material impact on sales revenue and operating profit. See the Notes to the Consolidated Financial Statements for further information.

Uncertainties in the outlook

The forward-looking statements and information described above are based on current expectations and certain assumptions. They therefore involve a series of risks and uncertainties, including but not limited to those described in the Report on Risks and Opportunities, as well as in other publications. Many factors are beyond the MAN Group's control. The MAN Group's actual performance and results could differ significantly from those stated or implied in these forward-looking statements if one of the uncertainties materializes or the underlying expectations and assumptions prove to be incorrect. MAN undertakes no obligation nor does it intend to update these forward-looking statements on an ongoing basis.

REPORT ON POST-BALANCE SHEET DATE EVENTS

No events occurred after the reporting period that are material for the MAN Group and that could lead to a reassessment of the Company.

SEPARATE NONFINANCIAL GROUP REPORT

Pursuant to section 315b (2) of the HGB, MAN SE exercises the right to exempt itself from the requirement to publish a nonfinancial statement, and refers to the combined nonfinancial report of Volkswagen AG for fiscal 2018, which will be available in German at **https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2018/Nichtfinanzieller_Bericht_2018_d.pdf** and in English at **https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2018/Nonfinancial_Report_2018_e.pdf** as of April 30, 2019, at the latest.

REMUNERATION REPORT FOR FISCAL YEAR 2018

Executive Board remuneration

As a matter of principle, resolutions determining the total remuneration of Executive Board members are prepared by the Presiding Committee of MAN SE's Supervisory Board. The Supervisory Board then determines the total remuneration in accordance with legal requirements.

In fiscal 2018, only Executive Board members were appointed at MAN SE who received remuneration from MAN Truck & Bus AG (Mr. Drees, Dr. Intra, and Mr. Lafrentz) or MAN Energy Solutions SE (Dr. Lauber) on the basis of their employment contracts with those companies and in accordance with the remuneration structure in effect there. They received no further remuneration from MAN SE.

Remuneration structure and components

The remuneration of Executive Board members comprises fixed salary payments and noncash benefits, pension and other benefit contributions, and variable performance-related components. The variable performance-related components reflect individual performance, business success, and long-term strategic goals.

The remuneration structure and components are based on each individual's employment contract.

A) Fixed remuneration

The fixed remuneration is paid as a monthly salary. In addition, Executive Board members receive noncash benefits consisting primarily of the provision of company cars and the payment of insurance premiums. Drivers for business trips are also available to Executive Board members.

The fixed remuneration is reviewed on a regular basis and modified where necessary, taking into account general salary trends and the area of responsibility of the individual Executive Board member.

B) Variable remuneration

Variable remuneration is calculated on the basis of three equally-weighted components, each of which is capped at 200% of the target amount:

- Long-term incentive bonus (LTI)
- Company performance bonus (CPB)
- Personal performance bonus (PPB)

The **long-term incentive bonus** is directly linked to the targets of the Strategy 2018 program of the Volkswagen Group. It is based on the success criteria derived from the strategy and calculated over a four-year period.

The target areas are:

- Leader in customer satisfaction, measured using the Customer Satisfaction Index,
- Leading employer, measured using the Employee Index,
- Unit sales growth, measured using the Growth Index, and
- Increase in the return on sales, measured using the Return Index.

The Customer Satisfaction Index is calculated using indicators that quantify the overall satisfaction of our customers with the delivering dealers, new vehicles, and the service operations based on their last workshop visit. The Employee Index is determined using the "employment" and "productivity" indicators as well as the participation rate and results of employee surveys. The Growth Index is calculated using the "deliveries to customers" and "market share" indicators. The Return Index is derived from the return on sales and the dividend per ordinary share.

The indices on customer satisfaction, employees, and unit sales are aggregated and the result is multiplied by the Return Index. This method ensures that the LTI is only paid out if the Group is financially successful. If the 1.5% threshold for the return on sales is not exceeded, the Return Index is zero. This would mean that the overall index for the fiscal year concerned is also zero.

MAN Truck & Bus AG's **company performance bonus** enables the Executive Board to participate in the business success of MAN Truck & Bus and TRATON. The success of MAN Truck & Bus is based on the operating profit of MAN Truck & Bus (weighting of two-thirds) and the success of TRATON on the return on sales (RoS) of TRATON (weighting of one-third). The calculation is based in each case on a two-year period.

Target achievement is calculated as follows:

- Operating profit of MAN Truck & Bus:
  The average operating profit from the year under review and the previous fiscal year is compared with a target figure defined by the Supervisory Board of the company before the beginning of the fiscal year in which the bonus is granted. The target figure corresponds to target achievement of 100%. The Supervisory Board of MAN Truck & Bus AG reviews and, if necessary, adjusts the target figure on a regular basis (at least once every three years).

  The resulting percentage ratio between the average and the target figures gives the target achievement figure as a percentage, which is capped at 200% of the average figure. This target achievement figure is incorporated into the calculation of the company performance bonus with a weighting of two-thirds.

- TRATON's return on sales (RoS):
  The average return on sales (RoS) from the year under review and the previous fiscal year is compared with a target figure defined by the Supervisory Board of the Company before the beginning of the fiscal year in which the bonus is granted. The target figure corresponds to target achievement of 100%. The Supervisory Board of TRATON SE reviews and, if necessary, adjusts the target figure on a regular basis (at least once every three years).

  The resulting percentage ratio between the average and the target figures gives the target achievement figure as a percentage, which is capped at 200% of the average figure. This target achievement figure is incorporated into the calculation of the company performance bonus with a weighting of one-third.

MAN Energy Solutions SE's **company performance bonus** enables the Executive Board to participate in the business success of MAN Energy Solutions. The success of MAN Energy Solutions is based on the operating profit of MAN Energy Solutions.

Target achievement is calculated as follows:

- The average operating profit from the year under review and the previous fiscal year is compared with a target figure defined by the Supervisory Board of the company before the beginning of the fiscal year in which the bonus is granted. The target figure corresponds to target achievement of 100%. The Supervisory Board of MAN Energy Solutions SE reviews and, if necessary, adjusts the target figure on a regular basis (at least once every three years).

  The resulting percentage ratio between the average and the target figures gives the target achievement figure as a percentage, which is capped at 200% of the average figure.

The **personal performance bonus** recognizes the individual employee's performance in the past fiscal year on the basis of the performance rating and the extent to which the targets set in the individual target agreement have been met. The bonus is determined according to quantitative and qualitative factors. The personal performance bonus for each individual is determined by the responsible Supervisory Board of MAN Truck & Bus AG or MAN Energy Solutions SE, respectively.

C) Occupational pension system

In the event of regular termination of service, Executive Board members' benefit entitlements comprise retirement, disability, and survivors' benefits. Entitlements to such benefits are accumulated under a defined contribution system, the Capital Account Plan, with the value of benefits dependent upon the performance of certain fund indices.

Every year, MAN Truck & Bus AG (for Mr. Drees and Dr. Intra) and MAN Energy Solutions SE (for Dr. Lauber) contribute an amount equal to 20% of eligible remuneration, i.e., of the sum of the respective contractually agreed fixed remuneration and the variable remuneration (comprising the company performance bonus and the personal performance bonus). Executive Board members may elect to make contributions themselves out of their gross salary.

Contributions and interest are held in individual capital accounts. The performance of the capital account is directly linked to the capital markets and is determined by a basket of indices and other suitable parameters. The risk of the investments is gradually reduced as the beneficiaries get older (lifecycle concept).

At retirement, the beneficiary may elect to receive the balance of the capital account, or at a minimum the total amount of the contributions, as a lump sum payment, in installments, or as an annuity.

In the event of disability or death, the beneficiary is paid the accumulated account balance, or a minimum of four times the individual fixed remuneration.

Special contract provisions
In the event of the early termination of their contract without a reason for terminating the contract early for good cause and at the instigation of the company concerned, Executive Board members receive their fixed remuneration, bonus, insurance contributions, and contributions to the pension system until the end of their normal term of office, but for no more than two years. Income from activities elsewhere is offset.

There are no special change-of-control provisions in place.

The following special arrangements were agreed in connection with the appointment of Mr. Drees, Dr. Intra, Mr. Lafrentz, and Dr. Lauber as members of the Company's Executive Board:

MAN Truck & Bus AG has undertaken to assume the expenses associated with continuing the existing pension entitlements for Mr. Lafrentz in the Volkswagen Group.

Special arrangements on guaranteed variable remuneration were agreed with Dr. Intra and Mr. Lafrentz. In fiscal year 2017, Dr. Intra, Mr. Lafrentz, and Dr. Lauber were entitled to a guaranteed variable remuneration; because of the extent to which the targets were actually met, the variable remuneration of Dr. Intra, Mr. Lafrentz, and Dr. Lauber exceeded the agreed guaranteed amounts in each case. Mr. Drees was entitled to a guaranteed monthly bonus from January until June 2017.

Mr. Drees additionally received a special bonus in fiscal year 2017.

Executive Board members' remuneration in 2018
The remuneration awarded to active members of the Executive Board for their services in fiscal 2018 totaled €5,829 thousand plus €838 thousand for pensions (previous year: €5,739 thousand plus €629 thousand for pensions). The present value of the pension obligations was €2,985 thousand as of December 31, 2018. €782 thousand of this amount was attributable to Mr. Drees, €1,525 thousand to Dr. Intra, and €678 thousand to Dr. Lauber. The present value of the benefit obligations to members of the Executive Board in office at the end of 2017 was €2,381 thousand as of December 31, 2017. Please see note (37) in the Notes to the Consolidated Financial Statements and the following tables for details of the Executive Board members' individual remuneration.

Mr. Josef Schelchshorn, who was a member of the Executive Board of MAN SE until the end of June 30, 2017, on the basis of an employment contract with Volkswagen AG, was paid a prorated bonus of €600 thousand gross for fiscal year 2017 by Volkswagen AG in April 2018 corresponding to the duration of his appointment as a member of the Executive Board of MAN SE.

Executive Board members' remuneration is reported individually in this remuneration report on the basis of the uniform model tables recommended in the German Corporate Governance Code (version dated February 7, 2017). These model tables present the benefits granted (table 1) and the benefits actually received (table 2) separately. The benefits granted table presents the targets (payment if targets met 100%) and the minimum and maximum amounts achievable.

Table 1: Executive Board members' remuneration in 2018 (benefits granted)

€ thousand	Joachim Drees[1] Chief Executive Officer 2017	2018	2018 (Min)	2018 (Max)
Fixed remuneration	510	624	624	624
Fringe benefits	64	68	68	68
Total	**574**	**692**	**692**	**692**
One-year variable remuneration (PPB)	285	312	0	624
Multi-year variable remuneration				
CPB (2 years)	285	312	0	624
LTI (4 years)	285	312	0	624
Other (special arrangements)	60	0	0	0
Total	**915**	**936**	**0**	**1,872**
Pension expense	186	264	264	264
Total remuneration	**1,675**	**1,892**	**956**	**2,828**

€ thousand	Dr. Carsten Intra[1, 2] Member of the Board, Chief Human Resources Officer 2017	2018	2018 (Min)	2018 (Max)
Fixed remuneration	225	480	480	480
Fringe benefits	16	34	34	34
Total	**241**	**514**	**514**	**514**
One-year variable remuneration (PPB)	113	240	0	480
Multi-year variable remuneration				
CPB (2 years)	113	240	0	480
LTI (4 years)	113	240	0	480
Others (special arrangements)	0	0	480	0
Total	**338**	**720**	**480**	**1,440**
Pension expense	84	228	228	228
Total remuneration	**663**	**1,462**	**1,222**	**2,182**

€ thousand	Jan-Henrik Lafrentz[1] Member of the Board, Chief Financial Officer 2017	2018	2018 (Min)	2018 (Max)
Fixed remuneration	408	408	408	408
Fringe benefits	36	39	39	39
Total	**444**	**447**	**447**	**447**
One-year variable remuneration (PPB)	204	204	0	408
Multi-year variable remuneration				
CPB (2 years)	204	204	0	408
LTI (4 years)	204	204	0	408
Others (special arrangements)	0	0	0	0
Total	**612**	**612**	**0**	**1,224**
Pension expense[8]	96	97	97	97
Total remuneration	**1,152**	**1,156**	**544**	**1,768**

[1] MAN Truck & Bus AG employment contract
[2] Joined July 1, 2017
[8] The amount recharged in 2018 will be paid out to Volkswagen AG in the following year.

Table 1: Executive Board members' remuneration in 2018 (benefits granted)

	Dr. Uwe Lauber[3, 4, 7] Member of the Board			
€ thousand	2017	2018	2018 (Min)	2018 (Max)
Fixed remuneration	400	480	480	480
Fringe benefits	26	31	31	31
Total	**426**	**511**	**511**	**511**
One-year variable remuneration (PPB)	200	240	0	480
Multi-year variable remuneration				
CPB (2 years)	200	240	0	480
LTI (4 years)	200	240	0	480
Other (special arrangements)	0	0	0	0
Total	**600**	**720**	**0**	**1,440**
Pension expense	165	249	249	249
Total remuneration	**1,191**	**1,480**	**760**	**2,200**

	Josef Schelchshorn[5, 6] Member of the Board, Chief Human Resources Officer			
€ thousand	2017	2018	2018 (Min)	2018 (Max)
Fixed remuneration	220	–	–	–
Fringe benefits	18	–	–	–
Total	**238**	**–**	**–**	**–**
One-year variable remuneration (PPB)	140	–	–	–
Multi-year variable remuneration				
CPB (2 years)	140	–	–	–
LTI (4 years)	140	–	–	–
Other (special arrangements)	180	–	–	–
Total	**600**	**–**	**–**	**–**
Pension expense	98	–	–	–
Total remuneration	**936**	**–**	**–**	**–**

[3] MAN Energy Solutions SE employment contract
[4] Joined March 1, 2017
[5] Volkswagen AG employment contract
[6] Until June 30, 2017
[7] Left the Executive Board of MAN SE effective the end of December 31, 2018. No payments were made to Dr. Lauber due to his departure from the Executive Board of MAN SE.

Table 2: Executive Board members' remuneration in 2018 (benefits received)

€ thousand	Joachim Drees[1] Chief Executive Officer 2017	2018	Dr. Carsten Intra[1, 2] Member of the Board, Chief Human Resources Officer 2017	2018	Jan-Henrik Lafrentz[1, 9] Member of the Board, Chief Financial Officer 2017	2018	Dr. Uwe Lauber[3, 4, 7] Member of the Board 2017	2018	Josef Schelchshorn[5, 6] Member of the Board, Chief Human Resources Officer 2017	2018
Fixed remuneration	510	624	225	480	408	408	400	480	220	–
Fringe benefits	64	68	16	34	36	39	26	31	18	–
Total	**574**	**692**	**241**	**514**	**444**	**447**	**426**	**511**	**238**	**–**
One-year variable remuneration (PPB)	428	468	158	336	296	296	240	288	168	–
Multi-year variable remuneration										
CPB (2 years)	353	393	140	302	253	257	148	149	185	–
LTI (4 years)	336	368	133	283	241	241	236	283	166	–
Other (special arrangements)	256	0	0	0	0	0	0	0	81	–
Total[8]	**1,373**	**1,229**	**430**	**922**	**790**	**794**	**624**	**720**	**600**	**–**
Pension expense	186	264	84	228	96	97	165	249	98	–
Total remuneration	**2,133**	**2,185**	**755**	**1,664**	**1,330**	**1,338**	**1,215**	**1,480**	**936**	**–**

1 MAN Truck & Bus AG employment contract
2 Joined July 1, 2017
3 MAN Energy Solutions SE employment contract
4 Joined March 1, 2017
5 Volkswagen AG employment contract
6 Until June 30, 2017
7 Left the Executive Board of MAN SE effective the end of December 31, 2018. No payments were made to Dr. Lauber due to his departure from the Executive Board of MAN SE.
8 2017: adjustment following preparation of the 2017 Annual Report; 2018: information based on key figures currently available
9 The amount recharged in 2018 will be paid out to Volkswagen AG in the following year.

Supervisory Board remuneration

The structure and amount of Supervisory Board remuneration are stipulated by the Annual General Meeting and governed by Article 12 of the Articles of Association. They are based on the tasks and responsibilities of the Supervisory Board members as well as on the Group's economic performance.

The annual remuneration comprises the following components:

- basic (fixed) remuneration of €35,000;
- variable remuneration (bonus). This is based on actual earnings per share as reported in the consolidated financial statements. The variable remuneration is €175 for every €0.01 by which earnings per share exceed €0.50. It is capped at twice the basic remuneration.

Additional remuneration is paid to the chairperson and deputy chairperson of the Supervisory Board as well as to the chairperson and members of the Supervisory Board committees. The Supervisory Board chairperson receives double and his/her deputy one-and-a-half times the fixed and variable remuneration. Members of the Supervisory Board's Audit Committee and Presiding Committee each receive an additional 50% and the chairpersons of the two committees receive an additional 100% of the basic remuneration.

Pursuant to the Articles of Association of MAN SE, the members of the Supervisory Board additionally receive an attendance fee of €500 in each case for meetings of the Supervisory Board or of Supervisory Board committees at which they are present.

In addition, members of the Supervisory Board are reimbursed for their expenses.

Remuneration and expenses reimbursed that are subject to value-added tax are paid gross of value-added tax if this is invoiced separately.

The variable remuneration component is based on MAN's earnings per share and is therefore not absolutely aligned with sustainable corporate development. To this extent, it could be said that the remuneration of the Supervisory Board is not in line with the recommendation contained in the German Corporate Governance Code. The Company has therefore declared as a precautionary measure that it does not follow the recommendation set out in section 5.4.6 of the Code.

Supervisory Board members' remuneration in 2018

The total remuneration payable to the members of the Supervisory Board for 2018 amounts to €1,384 thousand (previous year: €1,125 thousand). In addition, members of MAN SE's Supervisory Board received remuneration totaling €164 thousand (previous year: €138 thousand) for serving on supervisory boards at Group companies (including MAN Energy Solutions SE and Renk AG) in fiscal 2018. Please see note (38) in the Notes to the Consolidated Financial Statements for a breakdown of the individual remuneration of the Supervisory Board members in 2018.

Additional information

Supervisory Board members did not receive any additional remuneration or awards for personal services, particularly advisory or intermediary services, during the reporting period.

Former Supervisory Board members who left the Board prior to January 1, 2018, do not receive any remuneration.

TAKEOVER-RELATED DISCLOSURES

Disclosures in accordance with sections 289a (1) and 315a (1) of the *Handelsgesetzbuch* (HGB — German Commercial Code)

Composition of subscribed capital, classes of shares

MAN SE's share capital is unchanged at €376,422,400. It is composed of 147,040,000 no-par value bearer shares with a notional value of €2.56 each. In accordance with Article 4 (1) of the Articles of Association, the no-par value shares are divided into 140,974,350 common shares and 6,065,650 nonvoting preferred shares. All shares are fully paid up. Under Article 4 (2) sentence 2 of the Articles of Association, shareholders may not claim delivery of physical share certificates.

All shares have the same dividend rights; however, a cumulative preferred dividend of €0.11 per preferred share is payable in advance from net retained profit to holders of preferred shares, as well as a further €0.11 per common share as a subordinate right to holders of common shares. If there is insufficient net retained profit to pay the preferred dividend, the shortfall is payable in arrears, without interest, from the net retained profit of the subsequent fiscal years before the distribution of a dividend to the holders of common shares.

In accordance with the domination and profit and loss transfer agreement entered into between TRATON SE (formerly Volkswagen Truck & Bus GmbH, Volkswagen Truck & Bus AG, and TRATON AG) and MAN SE on April 26, 2013, which came into effect upon its entry in the commercial register on July 16, 2013, common and preferred shareholders will be paid a compensatory or guaranteed dividend within the meaning of section 304 of the *Aktiengesetz* (AktG — German Stock Corporation Act). The aforementioned domination and profit and loss transfer agreement was terminated by the Executive Board of TRATON SE on August 22, 2018, effective midnight (00:00) on January 1, 2019, by way of notice of extraordinary termination, with the result that the compensatory dividend within the meaning of section 304 is payable to common and preferred shareholders for the last time for fiscal 2018.

Common shares are voting shares, while preferred shares do not generally carry voting rights.

Under section 140 (2) of the AktG, this does not apply if the preferred dividend is to be made good — as is the case in section 139 (1) sentence 3 of the AktG due to the absence of a provision in the Articles of Association of MAN SE — and the preferred dividend is not paid in a given year, or is not paid in full, and is not made good in the following year in addition to the full preferred dividend for that year. In such cases, shareholders have voting rights until the shortfalls are made good, and the preferred shares must be included in the calculation of any capital majority required by law or by the Articles of Association. In light of the domination and profit and loss transfer agreement between TRATON SE and MAN SE that existed until midnight (24:00) on December 31, 2018, section 140 (2) of the AktG also applies in the same way in the event that the compensation within the meaning of section 304 of the AktG, i.e., the compensatory or guaranteed dividend, is not actually paid. Preferred shareholders also have voting rights in accordance with section 60 of the *SE-Verordnung* (SE-VO — German SE Regulation), under which a consenting resolution by the preferred shareholders is required if the Annual General Meeting adopts a resolution that affects the specific rights of preferred shareholders, i.e., a resolution to revoke or limit the preferred dividend or to issue preferred stock that would rank prior to or equal with the existing nonvoting preferred shares in the distribution of profit or the net assets of the Company.

The same rights and obligations attach to all shares in all other respects.

Restrictions affecting voting rights or the transfer of shares

Other than restrictions on voting rights for preferred shares and restrictions by virtue of statutory provisions, for instance under section 136 of the AktG, MAN SE is not aware of any restrictions on voting rights. The same applies to the transfer of shares.

Significant shareholdings in MAN SE

TRATON SE notified MAN SE on April 18, 2013, in accordance with section 21 (1) sentence 1 of the *Wertpapierhandelsgesetz* (WpHG — German Securities Trading Act), that the share of voting rights held by TRATON SE had exceeded the limit of 75% on April 16, 2013, and amounted to 75.03% at that time. Volkswagen AG notified MAN SE on June 6, 2012, in accordance with section 21 (1) sentence 1 of the WpHG, that the share of voting rights held by Volkswagen AG had exceeded the limit of 75% on June 6, 2012, and amounted to 75.03% at that time. Volkswagen AG contributed the relevant shares to TRATON SE on April 16, 2013. The relevant shares are now attributable to Volkswagen AG via TRATON SE. In addition, Porsche Automobil Holding SE and its controlling shareholders notified MAN SE in accordance with section 21 (1) of the WpHG that Volkswagen AG's interest — now TRATON SE's interest — is also attributable to Porsche Automobil Holding SE and its controlling shareholders.

MAN SE has not been notified of, nor is it aware of, further existing direct or indirect interests in the capital of MAN SE that exceed 10% of the voting rights or the relevant thresholds of the WpHG.

Appointment and dismissal of members of the Executive Board, amendments to the Articles of Association

The appointment and dismissal of members of the Company's Executive Board is governed by sections 39 (2) and 46 of the SE-VO in conjunction with sections 84 and 85 of the AktG and Article 5 of the Articles of Association. Under these provisions, the Executive Board must consist of at least two members. It falls within the responsibility and the authority of the Supervisory Board to appoint the members of the Executive Board for a period of up to five years and to revoke the appointment for good cause. Members may be reappointed once or several times.

Section 59 (1) of the SE-VO in conjunction with sections 179ff. of the AktG applies to amendments to the Articles of Association. Under these provisions, the Annual General Meeting may resolve to amend the Articles of Association by a majority of at least three-quarters of the share capital represented when the vote is taken. Under Article 10 (6) of the Articles of Association, the Supervisory Board is authorized to resolve amendments to the Articles of Association that affect only the wording.

Powers of the Executive Board

The powers of the Executive Board are governed by section 39 of the SE-VO in conjunction with sections 77ff. of the AktG and Article 6 of the Articles of Association. These provisions require the Executive Board to manage the Company independently and to represent the Company both in court and otherwise.