MAN SE's Supervisory Board aims, in light of the purpose and size of the Company and the proportion of its international business activities, to take the following factors into account for its composition:

- reserving at least two Supervisory Board positions – one of which is on the shareholder side – for persons who especially embody the criterion of internationality;
- reserving at least two Supervisory Board positions on the shareholder side for persons with no potential conflicts of interest who are independent within the meaning of section 5.4.2 of the Code;
- in addition, proposals for election should not, as a rule, include any persons who have reached the age of 70 at the time of the election or who have been a member of the Company's Supervisory Board for more than 20 years.

All aims have been fulfilled or taken into consideration respectively.

Ms. Pohlenz, Mr. Behrendt, and Prof. Schulz are considered independent members of the Supervisory Board according to the Code.

Furthermore, in December 2017, the Supervisory Board decided on a profile of skills and expertise for its composition, according to which the Supervisory Board of MAN SE should possess the following competencies overall:

- knowledge and experience of the Company itself;
- experience and knowledge in the areas of production, marketing, and sales;
- leadership or oversight experience in other medium-sized or large companies;
- experience in industries that are of importance to the MAN Group, such as the mechanical engineering, automotive, and information technology sectors;
- expertise in the areas of financial reporting or auditing.

All aims have been fulfilled or taken into consideration, respectively.

Please refer to the Report of the Supervisory Board and the “Governing Bodies” section of the Annual Report for further information on the composition of the Supervisory Board and its committees.

In accordance with the age limit set by the Supervisory Board for members of the Executive Board, their appointments should normally end one year after the member has reached the age of 65. This age limit is being increased in line with the increase in the standard age limit in the statutory pension insurance system, and the Supervisory Board reserves the right to make exceptions in individual cases.

In accordance with the requirements of the *Aktiengesetz* (AktG — German Stock Corporation Act) and section 4.3.4 of the Code, members of the Executive Board may undertake secondary activities only with the prior consent of the Supervisory Board.

No conflicts of interest were reported by members of either the Executive Board or Supervisory Board during the reporting period.

Remuneration system for the Executive Board and Supervisory Board

Please refer to the Remuneration Report in the Annual Report for information on the remuneration system for the Executive and Supervisory Boards.

Compliance/risk management

MAN SE's Executive Board established a Governance, Risk & Compliance (GRC) function as part of its responsibility for compliance and risk management as defined by the Code. This function is managed by the Head of GRC/Chief Compliance Officer, who reports directly to the Chief Executive Officer of MAN SE and additionally to the Audit Committee of the Supervisory Board. The GRC organization is responsible for compliance and risk management throughout the Group. The GRC function currently has 45 employees and consists of MAN SE's central Corporate GRC Office (19 employees) and the GRC organization in the divisions (26 employees).

The Corporate GRC Office performs central compliance and risk management functions. These include drawing up Group-wide policies and standards, as well as developing employee training. The Corporate GRC Office also regularly performs a special risk analysis to identify potential compliance risks to the Group and to adapt and further develop the Group-wide compliance management system to reflect these risks. In addition, the Corporate GRC Office oversees the performance of risk management processes in the divisions and is responsible for the ongoing development of risk management tools in cooperation with the risk/internal control system managers.

The GRC organization in the divisions is responsible for the implementation of the compliance management system and the risk management system developed by the Corporate GRC Office in the Group companies within the divisions. Each division has a head of GRC/compliance officer who is supported by compliance managers in various business units or sales regions as well as by risk/internal control system managers.

Finally, compliance and risk management tasks are also performed by so-called compliance champions and risk/internal control system coordinators. Compliance champions are MAN managers or employees who are not full-time GRC employees but who have assumed special responsibility for compliance and risk management issues.

The MAN compliance management system addresses white-collar crime (especially combating corruption, preventing money laundering, and terrorism funding) and antitrust law issues.

The key elements of the MAN compliance management system include the following:

- Regular reporting on the current status of compliance measures at different levels of the Group to the responsible committees.

- The MAN Group's ethical conduct guidelines and basic compliance requirements are described in its Code of Conduct, which also spells out the corporate values and establishes guidelines for the issue of integrity. The Code of Conduct of the MAN Group was updated in the year under review and took effect on January 1, 2018.

- The GRC organization has also developed policies on compliance issues such as combating corruption, antitrust law, and preventing money laundering. These policies represent uniform and binding requirements for all employees throughout the Group.

- The Compliance Helpdesk operated by the GRC function answered 378 questions from employees in the reporting period.

- The GRC function regularly holds classroom and online training courses on combating corruption, antitrust law, preventing money laundering, and data protection, among others. The focus in the year under review was on the rollout of two new online refresher courses in the areas of anti-corruption and antitrust law. These courses are designed to help the participants brush up on the contents of the respective basic online learning courses.

- Various communication measures were taken in the reporting period to promote integrity. This includes the publication and communication of the film on integrity, one of the corporate values, in a total of 12 languages, the distribution of GRC alerts and GRC newsletters on current GRC and compliance topics, and events at the Group companies to mark International Anti-Corruption Day on December 9, 2017.

- The Business Partner Approval Tool is used to check and approve the integrity of business partners active in the area of sales support. In total, 1,376 checks were conducted using this tool in the period under review.

- The Continuous Controls Monitoring (CCM) electronic monitoring system ensures that potential compliance risks and policy violations are detected early on. It comprises a set of purchasing and payment process controls and general IT controls. CCM is now used at 50 MAN Group companies or sites.

- The “Speak up!” whistleblower portal again served to detect and prevent material risks to MAN in the reporting period. “Speak up!” is used to accept and analyze information relating to serious statutory violations, especially in the area of white-collar crime (e.g., corruption offenses, suspected money laundering activities, and terrorism funding), antitrust law, and data protection. This information is investigated in detail. Violations are dealt with and punished according to the penalties permitted under labor law.

- MAN is a member of Transparency International, the United Nations Global Compact initiative, and the Deutsches Institut für Compliance (DICO). MAN also supports the United Nations Global Compact and the Allianz für Integrität, an initiative of the German Federal Ministry for Economic Cooperation and Development, the Deutsche Gesellschaft für Internationale Zusammenarbeit, the Bundesverband der Deutschen Industrie, as well as a large number of German companies to promote economic integrity.

For a detailed description of MAN’s risk management system as well as its risk and opportunity position, please refer to the Report on Risks and Opportunities contained in the Management Report.

Transparency and financial reporting

The MAN Group publishes a financial diary with all the key dates for its shareholders on its website at www.corporate.man.eu under the “Investor Relations” heading. All other important information for the shareholders and the interested public is also available on this website. It includes annual reports, interim reports, as well as invitations to and agendas for the annual general meetings, including other documents required to be published in connection with the Annual General Meeting.

We also post, without undue delay, information that is required to be published in accordance with capital market disclosure requirements on our website at www.corporate.man.eu under the “Investor Relations” heading. This refers, in particular, to the following information:

- In accordance with Article 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of April 16, 2014 on Market Abuse (Market Abuse Regulation), persons discharging managerial responsibilities, as well as persons closely associated with them, must report dealings in MAN shares and related financial instruments to the issuer and to the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin — German Federal Financial Supervisory Authority) without undue delay. No transactions were reported in fiscal year 2017.

- Article 17 of the Market Abuse Regulation requires issuers to publish insider information that directly affects them as soon as possible.

- Section 40 of the WpHG requires domestic issuers to release notifications they receive in connection with the shares of voting rights in the company that exceed or fall below the thresholds without undue delay.

The year-end consolidated financial statements of the MAN Group are prepared by the Executive Board on the basis of the International Financial Reporting Standards (IFRSs), while the single-entity financial statements of MAN SE are prepared in accordance with the *Handelsgesetzbuch* (HGB — German Commercial Code). In accordance with the recommendation in section 7.1.2, sentence 2 of the Code, the Audit Committee discusses MAN's half-yearly financial report with the Executive Board prior to its publication. The Group complies with the publication deadlines laid down in section 7.1.2, sentence 3 of the Code.

(2) Other corporate governance practices

MAN SE is the holding company and parent of the MAN Group. It conducts its business in close coordination with Volkswagen Truck & Bus GmbH and Volkswagen AG. In order to ensure uniformity, the MAN Group applies the standards using Group policies.

The MAN Group's ethical guidelines of conduct and compliance requirements are described in its Code of Conduct. It is available on our website at **www.corporate.man.eu** under the "Compliance & Risk" heading. The Code of Conduct lays down binding principles of conduct that embody core rules and minimum standards for all employees of the MAN Group. The goal is to provide all employees with guidance on legal and ethical challenges in their daily work and to promote proper conduct. In particular, the Code of Conduct includes a clear commitment to free and fair competition. Anticompetitive conduct and corruption of any kind are prohibited. The provisions of the Code of Conduct are set out in greater detail, for example, in the following Group policies: the Policy on handling gifts, hospitality, and invitations to events, the Policy on engaging business partners with an intermediary and/or representative function, the Policy on handling donations and sponsoring measures, the Policy on compliance with antitrust regulations, the Policy on case management and compliance investigations, the Policy on handling personal data, and the Policy on preventing money laundering and terrorism funding.

In addition, the Executive Board, employee representatives, and MAN SE's international labor union network signed an international framework agreement in March 2012 under which MAN has committed itself to safeguarding basic human rights and employee rights applicable all around the world. The goal of the agreement is to provide a reliable minimum standard that all of the MAN Group's employees worldwide can refer to and that creates ethical foundations for actions taken by MAN companies and employees.

In addition to complying with core ethical rules for the MAN Group's own employees, MAN expects suppliers and business partners, as well as their employees, to act responsibly and to comply with the applicable laws at all times and everywhere. To this end, MAN has issued its own Code of Conduct for Suppliers and Business Partners and translated it into 16 languages. This document is also available on our website at www.corporate.man.eu under the "Compliance & Risk" heading.

(3) Working practices and composition of the Executive Board, Supervisory Board, and committees

The composition of the Executive Board, the Supervisory Board, and the Supervisory Board committees can be found in the Notes to the Consolidated Financial Statements.

Please refer to the Corporate Governance Report under (1) for information on the working practices of the Executive Board and the Supervisory Board.

The Executive Board does not have any committees.

Working practices of the Supervisory Board committees

The Supervisory Board established two committees – the Presiding Committee and the Audit Committee – on which shareholders and employees are represented equally, with three representatives in each case, as well as the Nomination Committee, which consists solely of shareholder representatives.

The main role of the committees is to prepare Supervisory Board resolutions. In some cases, the Supervisory Board's decision-making powers or tasks are transferred to committees. The Nomination Committee is tasked with identifying candidates for Supervisory Board positions and recommending suitable candidates to the Supervisory Board as the latter's proposals for election at the Annual General Meeting. In this capacity, the shareholder representatives on the Presiding Committee act as the Nomination Committee.

As a rule, the Presiding Committee meets before every Supervisory Board meeting. The Audit Committee meets before the Supervisory Board financial statements meeting in connection with the preparation of the annual financial statements, and in connection with the interim financial statements. The Presiding Committee and the Audit Committee may also convene additional meetings as needed.

Please refer to the report of the Supervisory Board for further information on the duties performed by its committees.

(4) Target for percentage of women

Pursuant to section 111 (5) of the AktG, the Supervisory Board has again set a target of 0% for female members of the Executive Board in the period from January 1, 2017, to December 31, 2021.

Pursuant to section 76 (4) of the AktG, the Executive Board of MAN SE has likewise set the following goals for females in the two management levels directly below the Executive Board in the period from January 1, 2017, to December 31, 2021:

- 29.2% for females in the first management level below the Executive Board.
- 40% for females in the second management level below the Executive Board.

The corresponding disclosures by the subsidiaries of MAN SE that are required by law to set target percentages are available on our website at www.corporate.man.eu under the "Investor Relations" heading.

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 2018, 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 funding) 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.

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 "Central Risk Management of the MAN Group" ("Group policy"), which was fundamentally revised in 2017, 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 non-financial) 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, and 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 *Handelsgesetzbuch* (HGB — German Commercial Code), 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 and energy 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, as well as growing demand for energy and the innovation required by climate policy, which is gaining momentum. MAN continuously works on leveraging these market opportunities worldwide as part of its strategy.

In our view, volatility on the financial markets, 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. Moreover, the effects of the United Kingdom's plan to leave the EU are associated with uncertainties. Private and public sector debt remain high in many places; this also hinders growth prospects and can trigger negative market reactions. Declines in growth in key countries and regions often have an immediate impact on the state of the global economy and therefore pose a central risk.

Economic growth in some emerging economies is overshadowed, in particular, by dependence on energy and commodity prices and capital imports, as well as by sociopolitical 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 2018. 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. 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. For example, significant structural adjustments were implemented at all major European production sites of the Turbomachinery strategic business unit of MAN Diesel & Turbo due to the decline in demand worldwide, the industry-wide overcapacity, and the lower prices in 2017 in order to improve competitiveness in the future.

The macroeconomic environment may also give rise to opportunities for MAN if actual developments differ from expected developments in a positive way. MAN Diesel & Turbo has the opportunity to intensify the after-sales business in the medium term by introducing new service products and expanding the service network.

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 considerable 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. 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.

MAN Diesel & Turbo's two-stroke engines are manufactured exclusively by licensees, particularly in South Korea, China, and Japan. Volatile demand in shipbuilding has caused overcapacity in the marine engine market, which may lead to a decline in license revenue and bad debt losses. There is also a risk of losing market share as a result of mergers of Chinese state-owned licensees and competitors. We address these risks by constantly monitoring the markets, maintaining close working relationships with all licensees, and introducing new technologies.

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. Annual research and development expenditures amount to around 5% of Group sales revenue. MAN Diesel & Turbo's MAN 20V45/60 (the world's most powerful four-stroke engine), the MAN 175D compact high-speed marine engine, and the highly efficient MGT 6000 gas turbine series show how these risks can be overcome in the Power Engineering business area. Another example is the MAN TGE van, which was developed in cooperation with Volkswagen AG and enlarges MAN Truck & Bus's portfolio to include a product from the light-duty commercial vehicles segment. The divisions are expanding their business models in order to be able to meet the requirements of increasing digitization: they are developing new mobility solutions, such as freight optimization and fleet capacity utilization, and see the challenges posed by the digital transformation as an opportunity. The growing market for telematics services offers specific growth opportunities that MAN Truck & Bus aims to leverage on the basis of the RIO platform.

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. 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 operations.

During the industrial manufacture 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.

Long-term customer contracts give rise to additional risks. For example, changes in the political or economic conditions in a particular market may result in additional expenditure on major projects. At MAN Truck & Bus, buy-back 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 increase 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.

In the case of major projects, risks may arise that are often only identified in the course of the project. As a general rule, major projects in the MAN Group are subject to a two-step approval process. Following a project-specific risk analysis and assessment, they require the approval of the divisional executive board. Major projects are then submitted to MAN SE's Executive Board for approval. Any approved and ongoing contracts that deviate significantly from plan are entered in a special reporting system for critical contracts.

In the Power Engineering business area, long-term construction risks may result, in particular, from contracting deficiencies, miscosting, post-contracting changes in economic and technical parameters, weaknesses in project management, or poor performance by subcontractors. In particular, shortcomings or errors at the beginning of a project are usually very difficult to remedy or rectify and are often associated with significant additional expenditures. We endeavor to identify such risks at an even earlier stage and to take appropriate measures to eliminate or minimize them before they occur, through continual optimization of the project control process across all project phases, a lessons learned process, and regular project reviews. This allows us to further reduce the risks associated with major upcoming projects, especially in the bidding and planning phase.

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 the Notes to the Consolidated Financial Statements 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.

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 digitization 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 by 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 funding. In particular, these include the Code of Conduct, compliance guidelines 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.

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

As in the previous year, market risk continues to outweigh the other risk fields. There have been no significant changes to the overall risk position. 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 areas 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-mitigating measures were taken for these or their probability of occurrence was assumed to be low. Of all the risk fields, the Executive Board sees the most significant short-term risks in the market risk field. For both the Commercial Vehicles and Power Engineering business areas, these are risks in margin and unit sales development, as well as uncertainty in the relevant markets. The Power Engineering business area is also exposed to risks arising from strong competitive pressure, especially in Asia. Product-related risks primarily include excess costs in the further development of our products. The main process-related risks arise from legal disputes. Among financial risks, future currency developments are also an area of significant uncertainty. The short-term risks in the employee risk field are of minor significance.

On the basis of the risk management system established by the MAN Group, the Executive Board has again 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 2018 will continue to focus on market risk management.