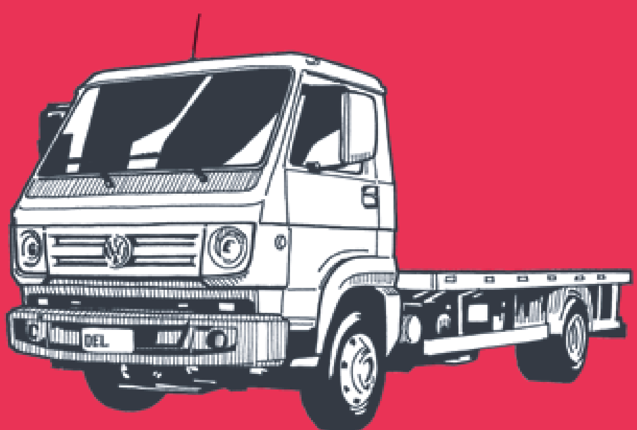
2

# COMBINED MANAGEMENT REPORT

PAGES
21 — 68



**VW DELIVERY 8.160**

The MAN Latin America vehicle has reached a new milestone in its illustrious history: in 2016, the VW Delivery 8.160 was the best-selling truck in Brazil. Almost 100,000 units from the Delivery series have now been sold.

2

Page
21

# COMBINED MANAGEMENT REPORT


**23 The MAN Group’s Business Activities**
23 The MAN Group
24 Research and development
27 Financial control system and value management

**29 Course of Business and Economic Position of the MAN Group in 2016**
29 Results of operations
32 Financial position
35 Net assets
37 Overall assessment by the Executive Board

**39 The Divisions in Detail**
39 MAN Truck & Bus
40 MAN Latin America
41 MAN Diesel & Turbo
43 Renk

**44 Financial Statements of MAN SE (HGB)**

**46 Report on Risks and Opportunities**
46 Company-wide risk management system
46 Risk management organization
47 Accounting-related risk management and internal control system
48 Opportunities and risks

**54 Report on Expected Developments**

**58 Report on Post-Balance Sheet Date Events**

**59 Employees**

**60 Remuneration Report for Fiscal Year 2016**

**67 Takeover-Related Disclosures**
67 Disclosures in accordance with sections 289 (4) and 315 (4) of the *Handelsgesetzbuch* (HGB — German Commercial Code)


68

The Combined Management Report describes the course of business and the position of the MAN Group and MAN SE in fiscal 2016. 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 transportation and energy, 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 and mechanical engineering groups and focuses on activities in the areas of transportation and energy — market segments that offer long-term, global opportunities. MAN's business activities are grouped into two business areas: Commercial Vehicles, comprising MAN Truck & Bus and MAN Latin America, and Power Engineering, featuring MAN Diesel & Turbo and Renk.

### Commercial Vehicles business area

MAN Truck & Bus is one of Europe's leading manufacturers of commercial vehicles and has production facilities in three European countries, Russia, South Africa, India, and Turkey. Its products range from general-purpose trucks with a gross vehicle weight of 7.5 to 44 t and special-purpose vehicles with a gross train weight of up to 250 t through buses and coaches to diesel and gas engines for external customer applications. In the future, MAN customers will receive sales and service support for everything from vans to heavy trucks from a single source. From 2017 onwards, MAN Truck & Bus will expand the product portfolio to include large vans, making it a full-range supplier of commercial vehicles. The new MAN van, which has been given the model name MAN TGE, was developed in cooperation with Volkswagen Commercial Vehicles and will be produced together with the identical Volkswagen Crafter at the new Volkswagen plant in Wrzesnia, Poland. To complement the entire expanded commercial vehicles portfolio, MAN Truck & Bus offers its customers an extensive range of services from a single source.

MAN Latin America is one of the largest truck manufacturers in Brazil and can look back on 35 years of history. Three of the five best-selling truck models in Brazil are from MAN Latin America. 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 Latin America and Africa comprises 339 dealers, including 156 exclusive sales and service partners in Brazil. MAN also covers the Brazilian heavy truck segment with power output exceeding 400 horsepower with the MAN TGX, which has been offered there since 2012. This establishes 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) Ltd., 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.

### Power Engineering business area

MAN Diesel & Turbo is one of the world's leading developers and manufacturers of large-bore diesel and gas engines, turbocompressors, industrial turbines, and chemical reactor systems. The company commands a strong market position in the development of two-stroke diesel engines for propulsion systems in large ships, in the development and manufacture of four-stroke diesel engines built into smaller vessels and used as auxiliary engines, and in four-stroke engines for electricity generation at power plants. In addition, MAN Diesel & Turbo delivers turbochargers for large-bore engines as well as complete and efficient power plants which supply useful heat from cogeneration. Moreover, as one of the leading manufacturers worldwide, MAN Diesel & Turbo offers a wide range of turbomachinery for various sectors such as the oil and gas, refining, chemical, and processing industries, as well as for producing industrial gases and electricity. MAN Diesel & Turbo has a comprehensive after-sales business covering the company's entire product range. A global network of over 100 MAN PrimeServ locations ensures that the company is close to its customers around the world.

Renk is a listed subsidiary of MAN SE and a global manufacturer of special gear units, propulsion components, and testing systems. MAN holds 76% of the company's capital. Renk is a leading manufacturer of tracked vehicle transmissions of different sizes as well as of slide bearings for electrical machinery. It also has an excellent position in the market for special gear units used for marine and industrial purposes. Its product portfolio is rounded off by an extremely wide variety of different types and performance categories of couplings. In addition, the company manufactures testing systems that are used in development, production, and quality assurance primarily in the automotive, rail, and aviation industries.

## Research and development

Continuous research and development work is one of the Company's core tasks to meet customers' needs for efficient mobility and energy supply 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 digitization.

### Commercial Vehicles

The megatrends have a direct influence on future developments in freight transport and the commercial vehicle industry — and hence on the Commercial Vehicles business area as well. The consequences include the need to reduce fuel consumption as a result of stricter emission laws, rising energy prices, 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's research and development activities therefore focus on reducing fuel consumption, cutting emissions, alternative drives and alternative fuels, and improving active and passive safety. MAN is also actively addressing the challenges posed by the digital transformation and initiated the digital brand RIO — an open, cloud-based platform for the entire transportation industry — in fiscal 2016.

At the IAA Commercial Vehicles 2016, MAN presented the new TGL, TGM, TGS, and TGX series models with new engines that meet the Euro 6c emission standard. The D26 and D38 engines offer more torque and an additional 20 horsepower as well as a low tare weight and excellent fuel economy. The two proven MAN engine series D08 and D20 also come with a range of new features to help reduce fuel consumption even more. Among other things, all engines feature a new, more reactive catalyst material for the SCR system, which means that combustion and exhaust gas treatment can be optimized so that consumption is reduced even further.

MAN also presented the latest edition of the EfficientLine concept, which combines all technical and aerodynamic fuel-saving features in a single truck. Trade magazine VerkehrsRundschau awarded the title of "Green Truck Innovation" to the MAN TGX EfficientLine 2 in April 2016. The award recognizes technical solutions that make commercial vehicles more environmentally friendly.

The new MAN TGE van series celebrated its world premiere at the IAA. The TGE makes MAN a full-range supplier, now covering permissible gross vehicle weights from 3.0 through 5.5 tons with this commercial vehicle for distribution transport and the building trade.

In the area of electric mobility (eMobility), MAN Truck & Bus presented the fully electric articulated MAN Lion's City bus as a modular concept vehicle, different charging infrastructure concepts, and a TGS semitrailer tractor with electric drive for night delivery applications in inner-city areas. Optimized for use with a city semitrailer, it offers a high load volume with a low tare weight.

The MAN Lion's City Hybrid is a practical and efficient modular eMobility solution for transport companies. Different charging technologies can be combined as needed and the number of storage modules can be selected based on the required range and transport capacity.

According to the MAN eMobility roadmap, a 100% electric city bus will start series production by 2020. The technological expertise from the eMobility modular system in the bus sector can also be transferred to electric truck applications in the future.

MAN is also continuously optimizing its diesel engines to reduce public transport emissions to a minimum. MAN also leads the market for natural gas-powered CNG city buses.

The NEOPLAN Tourliner is the new entry model in the premium coach segment and offers a range of potential applications, a large number of assistance systems, and an even lower total cost of ownership.

MAN demonstrated efficiency through convoy driving in the European Truck Platooning Challenge 2016, an initiative of the Dutch Ministry of Infrastructure and the Environment. The aim of the project was to explore potential improvements in traffic safety and the efficiency of road freight transport. Vehicle platooning is a system currently being developed for road transport in which at least two or more truck and trailer combinations drive closely behind each other using technical driver assistance and control systems as well as car-to-car communication, which can also improve road safety. This "electronic drawbar" automates the longitudinal and lateral control of the vehicle to the rear, i.e., it follows the truck in front. The distance between each semitrailer combination is less than 15 meters or around half a second of driving time. Platooning is also expected to improve traffic flow on motorways.

DB Schenker and MAN agreed on a concrete initial platooning project in November 2016. This is the first time a logistics company and a vehicle manufacturer have worked together to develop networked truck convoys. The plan is to field-test a truck platoon on the digital test field — a section of the A9 motorway between DB Schenker's Munich and Nuremberg locations — in 2018. The second phase involves the deployment of self-driving trucks on DB Schenker's Nuremberg site.

MAN long trucks have been involved in a field trial since October 2012. This has confirmed the positive expectations and shows that long trucks are a safe and economical form of road transport. The accompanying study prepared by the *Bundesanstalt für Straßenwesen* (BASt — Federal Highway Research Institute) revealed that long trucks can be integrated into the traffic flow without causing any problems. At the same time, the use of long trucks is not expected to increase maintenance requirements for road infrastructure due to the larger number of axles. Long trucks have been used in regular operation on an approved road network since the beginning of 2017.

MAN Truck & Bus is the initiator of the new digital brand RIO and is responsible for the development of the brand within Volkswagen Truck & Bus. RIO is an open, cloud-based platform for the entire transportation industry that bundles digital solutions for the transportation and logistics ecosystem. For the first time, it connects all players in the supply chain — shippers, loaders, dispatchers, carriers, drivers, and recipients — via a uniform information and application system, including a forecasting feature. In the future, RIO will provide users with specific recommendations in real time by combining information from tractors, trailers, bodies, drivers, and orders together with traffic, weather, or navigation data, for example. This improves customer profitability and reduces the environmental impact through fewer empty runs. Trucks delivered by MAN Truck & Bus from the second quarter of 2017 onwards will be equipped with RIO as standard. Drivers will then be able to use their smartphones to receive relevant information such as new transport orders and directly start navigation to the customer, for example. Loadfox, a smart order management service, can improve truck utilization by assigning additional cargo to partially loaded trucks along their routes, for instance.

In the future, MAN and Scania will work together on the joint development of core components of the drive train under the umbrella of Volkswagen Truck & Bus. Common platforms for engines, transmissions, axles, and exhaust after-treatment systems will be created for adaptation by the individual brands. The lead engineering concept for this joint development project, which was launched in September 2016, takes the specific requirements of all participants into account and clearly defines responsibilities. The brands remain independent, and each cross-brand project group will be led by one of the two companies.

The development activities of MAN Latin America in fiscal 2016 focused on technical enhancements and the development of new products. The company also rolled out a telematics system for fleet management.

**Power Engineering**

Increased energy efficiency and reduced emissions are the main drivers of the development strategy for all products at MAN Diesel & Turbo. Intensified global price competition is also forcing product design adjustments with respect to unit production costs and delivery times. Consequently, we systematically continued the product initiative in 2016 to expand and optimize the product portfolio and maintain our long-term technology leadership.

A number of new four-stroke engine types were again approved for sale during the year under review. These are currently in the launch phase. Another focus area was the development and optimization of end-to-end solutions for various customer groups. The acquisition of Cryo AB's LNG tank and supply systems business at the end of 2015 strengthened MAN Diesel & Turbo's expertise in the construction, production and operation of gas fuel systems. Gas is becoming an increasingly important fuel in maritime applications and the gas supply systems will help expand the company's presence in the dual fuel segment. This will enable MAN to offer customers a one-stop solution with a dual-fuel engine and liquid gas storage system on board the ship.

Research and development on two-stroke engines again focused on fuel flexibility (e.g., LNG, methanol, ethane). The world's first methanol-powered overseas tanker was equipped with a two-stroke liquid gas injection engine in the period under review.

Product development for stationary applications of four-stroke engines (diesel and, increasingly, gas engines) primarily aims to further improve the performance of engine-operated power plants and optimize project costs and durations. MAN Diesel & Turbo's new modular concept for gas engine power plants with cogeneration responds to the growing demand for highly efficient but flexible energy generation technologies. The CHP solution is based on MAN's proven 35/44G engine — a four-stroke gas engine available with both single-staged and two-staged turbochargers. MAN Diesel & Turbo is also increasingly gearing its energy generation product portfolio to gas.

Turbomachinery products are increasingly being designed as modules so that the product range can be tailored to customer requirements and economies of scale can be achieved with smart modularization. The use of carry-over parts enhances process stability, reducing costs for both the customer and the producer. In this way, the company meets the challenge of bringing outstanding products and services to the market at an attractive price. Efficient spare parts management concepts as part of comprehensive customer solutions also play a role here.

Steam-turbine-driven compressor trains are being further modularized for various refinery applications in order to better respond to changed market conditions such as the noticeable cost pressure resulting from lower investment volumes. This also applies to other compressor families. Investment projects can thus be implemented faster and at lower cost to plant operators. The competitiveness of compressor trains for floating production, storage, and offloading vessels used in the oil and gas sector was also increased significantly.

A substantial part of the development of products and services involves seemingly minor matters, but results in continual improvements in efficiency or reductions in energy input. For example, an enhanced generation of steam turbine blades makes it possible to break through to new levels of efficiency, and these benefits can be applied to an entire family of steam turbines.

Finally, MAN Diesel & Turbo has begun to expand its latest line of gas turbines for applications in power generation and mechanical drives.

Renk's R&D work concentrated on continually optimizing and complementing the product portfolio. Activities in the individual business units built on the existing range of products, with a focus on further improvements to new drive concepts and the expansion of complex solution packages designed to meet specific customer requirements. Most of Renk's products are developed for and in partnership with customers. The company is often involved in the concept phase and works together with customers to find the best solutions for their specific needs.

### Key R&D figures

#### Research and development costs

| € million | 2016 | 2015 |
|---|---|---|
| Total R&D costs | 881 | 791 |
| of which: capitalized development costs | –276 | –246 |
| Capitalization ratio in % | 31.3 | 31.1 |
| Amortization of and impairment losses on capitalized development costs | 101 | 125 |
| **R&D costs recognized in the income statement** | **706** | **670** |
| Ratio to sales revenue in % | 5.2 | 4.9 |
| R&D employees (annual average) | 4,554 | 4,633 |

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 locations.

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. This takes 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 two most significant nonfinancial key performance indicators are vehicle sales in the Commercial Vehicles business area and order intake in the Power Engineering business area.

### Operating return on sales

The MAN Group aims for an operating return on sales of 8.5% over an operating cycle. The goal is an operating return on sales of 8.5% in the Commercial Vehicles business area and 9.0% in the Power Engineering business area.

A range of +/–2 percentage points has been defined for all specified figures.

| % | 2016 | 2015 |
|---|---|---|
| Commercial Vehicles | 2.1 | –1.0 |
| Power Engineering | 1.1 | 7.5 |
| **MAN Group** | **1.5** | **0.7** |

### Return on investment (ROI)

| € million | 2016 | 2015 |
|---|---|---|
| MAN Group annual average invested capital | 5,943 | 5,860 |
| Operating profit | 204 | 92 |
| Operating profit after tax | 143 | 64 |
| ROI in % | 2.4 | 1.1 |

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. Using the various international income tax rates of the relevant companies, we assume an overall average tax rate of 30% when calculating the operating result after tax.

# COURSE OF BUSINESS AND ECONOMIC POSITION OF THE MAN GROUP IN 2016

European commercial vehicles market up significantly year-on-year, difficult market environment in Brazil and in the Power Engineering business area, programs for the future initiated at MAN Latin America and MAN Diesel & Turbo

## Results of operations

### Order situation

### Order intake

**Order intake by business area**

| € million | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Commercial Vehicles | 11,105 | 77 | 11,009 | 76 |
| Power Engineering | 3,281 | 23 | 3,408 | 24 |
| Others | –29 | 0 | –35 | 0 |
| **MAN Group** | **14,357** | **100** | **14,381** | **100** |

The Commercial Vehicles business area saw significant growth in the European commercial vehicles market in 2016. In contrast, the ongoing recession and political uncertainties in Brazil once again led to a considerable decline in demand compared with the previous year. The number of vehicles ordered fell overall to 105,046 vehicles (previous year: 107,546 vehicles). The increase of approximately 1,600 vehicles at MAN Truck & Bus was unable to offset the considerable decline of approximately 4,100 vehicles at MAN Latin America.

In the Power Engineering business area, the situation in the marine and turbomachinery markets deteriorated further. The energy generation market improved slightly but remained at a low level. Overall, this led to a noticeable decrease in order intake at MAN Diesel & Turbo. At Renk, growth in the Special Gear Units and Vehicle Transmissions businesses compensated for declines in the Standard Gear Units and Slide Bearings businesses.

**Order backlog**

| € million | 2016 | 2015 |
|---|---|---|
| Commercial Vehicles | 2,595 | 2,456 |
| Power Engineering | 3,050 | 3,588 |
| Others | –5 | –8 |
| **MAN Group** | **5,641** | **6,037** |

The order backlog in the Power Engineering business area declined to 85% of its annual sales revenue in 2016 and therefore spans less than one year.

### Sales revenue

**Sales revenue by business area**

| € million | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Commercial Vehicles | 10,002 | 74 | 9,954 | 73 |
| Power Engineering | 3,593 | 26 | 3,775 | 27 |
| Others | –32 | 0 | –28 | 0 |
| **MAN Group** | **13,564** | **100** | **13,702** | **100** |

Unit sales in the Commercial Vehicles business area remained almost unchanged overall at 102,235 units (previous year: 102,474 units) following positive growth at MAN Truck & Bus (+5%). The figure for MAN Latin America decreased by 17% due to market-related factors. As a result, MAN Latin America's sales revenue declined by 18%. In contrast, MAN Truck & Bus's sales revenue rose by 3%. Overall, sales revenue in the Commercial Vehicles business area was slightly higher than in the previous year.

Sales revenue in the Power Engineering business area decreased by 5%. MAN Diesel & Turbo recorded lower sales revenue in the Engines & Marine Systems strategic business unit due to market-related factors, as well as in the Turbomachinery strategic business unit as a result of lower order intake in previous years. Renk's sales revenue was up slightly on the prior-year figure.

### Sales revenue by region

| € million | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Europe | 8,993 | 66 | 8,447 | 62 |
| Germany | 3,273 | 24 | 3,252 | 24 |
| Western Europe (excluding Germany) | 4,175 | 31 | 3,810 | 28 |
| Central and Eastern Europe | 1,545 | 11 | 1,385 | 10 |
| Americas | 1,472 | 11 | 1,745 | 12 |
| North America | 499 | 4 | 491 | 3 |
| South America | 974 | 7 | 1,254 | 9 |
| Asia-Pacific | 1,707 | 13 | 1,889 | 14 |
| Other markets | 1,391 | 10 | 1,621 | 12 |
| Africa | 554 | 4 | 639 | 5 |
| Middle East | 837 | 6 | 981 | 7 |
| **MAN Group** | **13,564** | **100** | **13,702** | **100** |

The regional distribution of sales revenue reflects market developments. Sales revenue in Europe primarily grew in the Commercial Vehicles business area. The decline in sales revenue in South America is primarily attributable to the significant deterioration in the Trucks business in Brazil. €0.7 billion (previous year: €0.9 billion) of the MAN Group sales revenue recorded in South America was attributable to MAN Latin America, which in turn generated 61% (previous year: 70%) of its sales revenue in the Brazilian market. In Asia, sales revenue was concentrated in South Korea (approximately €0.5 billion) and China (approximately €0.4 billion). Both countries saw a sharp decline in sales revenue in the Power Engineering business area due to the situation in the marine market. China was also impacted by weaker demand in the Turbomachinery strategic business unit. The decrease in sales revenue in the Middle East is largely the result of lower unit sales of commercial vehicles in Turkey and Saudi Arabia.

## Operating profit/loss

### Operating profit/loss by business area

| € million | 2016 | 2015 |
|---|---|---|
| Commercial Vehicles | 209 | –101 |
| Power Engineering | 39 | 283 |
| Others | –45 | –90 |
| **MAN Group** | **204** | **92** |

The Commercial Vehicles business area recorded a considerable improvement in operating profit at MAN Truck & Bus. In addition to higher volumes and improved margins, the PACE2017 program for the future launched in the past year had a significantly positive impact. MAN Latin America's operating loss increased on the back of lower sales revenue as well as the restructuring measures introduced at the company in 2016, which negatively impacted the operating loss by €58 million. The prior-year figure includes restructuring expenses of €185 million at MAN Truck & Bus.

Operating profit in the Power Engineering business area declined in the year under review as a result of volume- and margin-related factors. A comprehensive program to safeguard future viability was launched in response to the negative market factors that have confronted MAN Diesel & Turbo for some time now. The Base Camp 3000+ program includes measures to optimize internal processes and improve the cost structure. In this context, operating profit was negatively impacted by restructuring expenses in the amount of €155 million.

"Others" comprises MAN SE and its Shared Services companies, the income from equity investments held directly by MAN SE, and the consolidation adjustments between the MAN Group's business areas. The operating loss attributable to Others improved year-on-year due to the reversal of provisions, cost-cutting measures, as well as smaller effects from purchase price allocations.

The table below presents operating profit/loss after adjustment for special items resulting from restructuring expenses to better illustrate operating performance. The MAN Group's operating profit before special items rose significantly to €417 million in fiscal 2016 (previous year: €277 million). The improvement in operating profit before special items in the Commercial Vehicles business area is attributable to MAN Truck & Bus. The deterioration in the Power Engineering business area was caused by MAN Diesel & Turbo.

**Operating profit/loss before special items[1] by business area**

| € million | 2016 | 2015 |
|---|---|---|
| Commercial Vehicles | 267 | 84 |
| Power Engineering | 194 | 283 |
| Others | –45 | –90 |
| **MAN Group** | **417** | **277** |

[1] 2016: Special items comprise restructuring expenses in the amount of €58 million at MAN Latin America and €155 million at MAN Diesel & Turbo.
2015: Special items comprise restructuring expenses in the amount of €185 million at MAN Truck & Bus.

### Operating return on sales

The MAN Group's operating return on sales in the past fiscal year was 1.5% (previous year: 0.7%). Excluding restructuring expenses, the operating return on sales was 3.1% (previous year: 2.0%). The MAN Group's profitability thus improved noticeably in 2016 but was still significantly below the targeted range of the long-term target of 8.5% +/– two percentage points given the difficult environment.

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

### Income statement

| € million | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Sales revenue | 13,564 | 100 | 13,702 | 100 |
| Cost of sales | –11,033 | –81 | –11,107 | –81 |
| **Gross profit** | **2,531** | **19** | **2,594** | **19** |
| Other operating income | 592 | 4 | 513 | 4 |
| Distribution expenses | –1,565 | –12 | –1,562 | –11 |
| General and administrative expenses | –757 | –6 | –762 | –6 |
| Other operating expenses | –597 | –4 | –692 | –5 |
| **Operating profit** | **204** | **2** | **92** | **1** |
| Share of profits and losses of equity-method investments | 19 | 0 | 11 | 0 |
| Finance costs | –203 | –1 | –189 | –1 |
| Other financial result | 29 | 0 | 182 | 1 |
| **Financial result** | **–155** | **–1** | **3** | **0** |
| **Profit before tax** | **49** | **0** | **95** | **1** |
| Income tax expense | –55 | 0 | 64 | 0 |
| Current | –208 | –2 | 63 | 0 |
| Deferred | 152 | 1 | 1 | 0 |
| Loss from discontinued operations, net of tax | – | – | –10 | 0 |
| **Profit/loss after tax** | **–7** | **0** | **150** | **1** |

The MAN Group's sales revenue was down slightly on the previous year. Gross profit also deteriorated slightly. A significant improvement at MAN Truck & Bus contrasted with strong declines at MAN Diesel & Turbo and MAN Latin America.

Distribution and general and administrative expenses remained at the prior-year level. MAN's ongoing efficiency programs enable it to compensate for systematic cost increases such as wage growth and to actively address new issues.

Other operating income was up year-on-year as a result of higher income from the reversal of provisions as well as the realization of currency forwards. Other operating expenses declined as against the previous year, mainly due to lower foreign exchange losses. As in the previous year, other operating expenses include restructuring expenses.

The financial result deteriorated considerably compared with the previous year. In 2015, the other financial result included income from the dividend of €138 million distributed by Scania AB, Södertälje, Sweden (Scania). There was no dividend for the year under review. In contrast, net income from equity-method investments increased. Profit recorded by Rheinmetall MAN Military Vehicles GmbH, Munich improved significantly, while that of Sinotruk decreased. Finance costs were up slightly year-on-year due to the increased financing volumes and higher interest rates in Brazil.

The MAN Group's tax expense in the year under review was €55 million. The tax rate was 113.6% (previous year: –67.5%). Tax income of €64 million was recorded in 2015 due to prior-period taxes. The tax rate in the period under review was negatively impacted by the nonrecognition of deferred tax assets on losses incurred in Brazil in particular. Further information on the change in the tax rate can be found in the "Notes to the Consolidated Financial Statements." Discontinued operations had no effect on earnings in the year under review.

## Financial position

### MAN Group funding

Both bilateral lines with financial institutions and Volkswagen AG, and capital market instruments are used for debt funding.

The Group currently has access to a perpetual €2.5 billion credit facility from Volkswagen AG, of which €1.25 billion has been utilized. The unutilized portions of the credit facility are available as a liquidity reserve. MAN SE's last outstanding publicly offered bond with a principal amount of €0.75 billion and a coupon of 2.125% p.a. matures on March 13, 2017.

In connection with this bond, the Company has the following material agreements, which are subject to a change of control following a takeover bid:

Repayment of the bond (€0.75 billion) can be demanded if one or more persons acting in concert acquire more than 50% of the voting rights in MAN SE and, as a result, the Company's rating is downgraded to noninvestment grade within 120 days.

## Cash flow

### MAN consolidated statement of cash flows (key figures)

| € million | 2016 | 2015 |
|---|---|---|
| **Cash and cash equivalents at beginning of period** | **779** | **525** |
| Profit before tax | 49 | 95 |
| Income taxes paid/refunded | 63 | 34 |
| Depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property [1] | 349 | 370 |
| Amortization of, and impairment losses on, capitalized development costs [1] | 101 | 125 |
| Impairment losses on equity investments | 2 | 0 |
| Depreciation of assets leased out [1] | 562 | 550 |
| Change in pension provisions | –70 | –35 |
| Gain/loss on disposal of noncurrent assets and equity investments | –3 | –6 |
| Share of profits or losses of equity-method investments | –16 | –2 |
| Other noncash income and expense | 5 | 37 |
| **Gross cash flow** | **1,041** | **1,169** |
| **Change in working capital** | **–208** | **–7** |
| Change in inventories | –121 | –62 |
| Change in receivables | 43 | 225 |
| Change in liabilities and prepayments received (excluding financial liabilities) | 615 | 491 |
| Change in provisions | 134 | 164 |
| Change in assets leased out | –879 | –826 |
| **Net cash provided by operating activities** | **833** | **1,162** |
| Payments to acquire property, plant, and equipment and intangible assets (excluding capitalized development costs) | –579 | –442 |
| Additions to capitalized development costs | –276 | –246 |
| Payments to acquire other investees | –6 | –20 |
| Proceeds from the disposal of other investees | – | 25 |
| Proceeds from asset disposals (other than assets leased out) | 30 | 17 |
| **Net cash used in investing activities attributable to operating activities** | **–831** | **–667** |
| **Net cash flow** | **2** | **495** |

[1] Net of impairment reversals.

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

| € million | 2016 | 2015 |
|---|---|---|
| **Net cash flow** | **2** | **495** |
| Change in investments in securities and loans | 103 | 175 |
| **Net cash used in investing activities** | **–728** | **–492** |
| Dividends allocated to noncontrolling interest shareholders | –4 | –3 |
| Profit transfer | –513 | –486 |
| Capital transactions with noncontrolling interest shareholders | –3 | – |
| Repayment of bonds | –500 | –620 |
| Change in other financial liabilities | 894 | 717 |
| **Net cash used in financing activities** | **–126** | **–392** |
| Effect of exchange rate changes on cash and cash equivalents | 39 | –25 |
| **Change in cash and cash equivalents** | **17** | **253** |
| **Cash and cash equivalents at end of period** | **796** | **779** |
| **Composition of net liquidity/net financial debt at end of period [1]** | | |
| Cash and cash equivalents | 796 | 779 |
| Securities, loans, and time deposits | 325 | 426 |
| **Gross liquidity** | **1,120** | **1,204** |
| Total borrowings | –2,995 | –2,515 |
| **Net financial debt** | **–1,875** | **–1,311** |

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

The MAN Group's gross cash flow in fiscal year 2016 was €1,041 million (previous year: €1,169 million). The decline is mainly attributable to the lower profit before tax and lower non-cash expenses. As in the previous year, tax refunds exceeded tax payments.

The increase in working capital led to a more pronounced reduction in net cash provided by operating activities than in the previous year. This was mainly due to the greater increase in inventories and the smaller decrease in receivables. As in the previous year, the increase in provisions was driven by the recognition of restructuring provisions in 2016. Within working capital, the increase in assets leased out was more than offset by the depreciation of assets leased out and by offsetting effects in other liabilities within cash flows from operating activities.

Net cash used in investing activities attributable to operating activities largely reflected the higher capital expenditures at MAN Truck & Bus.

Across all business areas, a break-even net cash flow from operating and investing activities attributable to operating activities was achieved in the year under review.

### Net cash flow by business area

| € million | 2016 | 2015 |
|---|---|---|
| Commercial Vehicles | –124 | 171 |
| Power Engineering | –19 | 173 |
| Others | 145 | 151 |
| **MAN Group** | **2** | **495** |

In the Commercial Vehicles business area, net cash flow declined in fiscal year 2016 to €–124 million (previous year: €171 million). This is largely due to an increase in working capital and higher capital expenditures at MAN Truck & Bus. It was also impacted by the wider loss at MAN Latin America.

Net cash flow in the Power Engineering business area was mainly influenced by the deterioration in business operations at MAN Diesel & Turbo.

The net cash flow attributable to Others in the year under review includes the inflow of €135 million from the dividend distributed by Scania, which was reported as noncash income under the financial result in the previous year. The prior-year figure was principally composed of tax refunds.

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

Net cash used in financing activities amounted to €126 million in the reporting period (previous year: €392 million). This includes the profit transfer of €513 million for 2015 to Volkswagen Truck & Bus GmbH (previous year: €486 million). The cash outflows from the repayment of bonds was offset by new loans of €850 million (previous year: €400 million) from Volkswagen AG.

No dividend was distributed. Instead, Volkswagen Truck & Bus GmbH made the contractually defined cash compensation payment (€3.07) to each MAN SE free float shareholder.

The MAN Group's net financial debt rose by €564 million and amounted to €1,875 million as of December 31, 2016.

## Capital expenditures

### Capital expenditures

| € million | 2016 | 2015 |
|---|---|---|
| Property, plant, and equipment, and investment property | 559 | 429 |
| Intangible assets | 295 | 259 |
| Investments | 6 | 20 |
| **Total** | 861 | 708 |

There was growth in both payments to acquire property, plant, and equipment, and in capital expenditures on intangible assets in fiscal 2016. In view of the difficult economic situation, we are reviewing planned capital expenditures particularly critically, and are systematically prioritizing them. 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 | 2016 | 2015 |
|---|---|---|
| Property, plant, and equipment, and intangible assets | 382 | 262 |
| Capitalized development costs | 185 | 143 |
| **Total** | **567** | **405** |

Investing activities at MAN Truck & Bus in 2016 focused on restructuring and modernizing the production facilities to ensure a high level of plant efficiency and product quality over the long term. In particular, the German and Austrian sites were adapted to meet the requirements of new products and components.

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 sales and service network. New sales and service branches and TopUsed centers were opened in 2016, and construction commenced on further facilities.

**Capital expenditures at MAN Latin America**

| € million | 2016 | 2015 |
|---|---|---|
| Property, plant, and equipment, and intangible assets | 53 | 41 |
| Capitalized development costs | 37 | 45 |
| **Total** | **89** | **86** |

In fiscal year 2016, MAN Latin America invested primarily in the development of new products. MAN Latin America'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.

**Capital expenditures at MAN Diesel & Turbo**

| € million | 2016 | 2015 |
|---|---|---|
| Property, plant, and equipment, and intangible assets | 116 | 99 |
| Capitalized development costs | 54 | 58 |
| **Total** | **169** | **157** |

MAN Diesel & Turbo primarily invested in the development of new products and the modernization of infrastructure in fiscal 2016. Capital expenditures in diesel engine production focused on machining equipment for engine and turbocharger parts. The modernization of large-bore engine test beds continued. In engine development, the company mainly invested in the expansion of equipment to develop gas aftertreatment processes and engine control systems. The main emphasis at the turbomachinery production and test sites was on completing the expansion of the test bed infrastructure, with a basic focus on areas that help cut costs and increase productivity. As far as necessary, measures to improve quality and occupational health and safety were also taken into account.

**Capital expenditures at Renk**

| € million | 2016 | 2015 |
|---|---|---|
| Property, plant, and equipment, and intangible assets | 25 | 41 |

Capital expenditures at Renk related mainly to property, plant, and equipment. The largest part went to the Augsburg site, where the testing area facilities for special gear units in the new multipurpose building were completed and put into operation. Renk also made targeted investments in the modernization of its technical equipment. In the Vehicle Transmissions business, the focus was on the ongoing renovation of the production facilities as well as the modernization of its transmission test beds.

## Net assets

| € million | 2016 | 2015 |
|---|---|---|
| Property, plant, and equipment, and intangible assets | 4,774 | 4,195 |
| Investments | 3,360 | 3,207 |
| Assets leased out | 3,239 | 2,949 |
| Income taxes | 638 | 527 |
| Inventories | 3,246 | 3,058 |
| Trade receivables | 2,038 | 1,924 |
| Other noncurrent and current assets | 1,348 | 1,472 |
| Cash and cash equivalents | 796 | 779 |
| **Total assets** | **19,438** | **18,110** |
| | | |
| Equity | 5,850 | 5,565 |
| Pensions and other post-employment benefits | 624 | 496 |
| Financial liabilities | 2,995 | 2,515 |
| Other financial liabilities | 2,537 | 2,672 |
| Provisions | 1,978 | 1,811 |
| Prepayments received | 705 | 789 |
| Income taxes (including provisions for taxes) | 380 | 333 |
| Trade payables | 1,914 | 1,683 |
| Other noncurrent and current liabilities | 2,455 | 2,246 |
| **Total equity and liabilities** | **19,438** | **18,110** |

Property, plant, and equipment, and intangible assets rose to €4,774 million as of December 31, 2016 (previous year: €4,195 million). This was firstly influenced by the fact that capital expenditures were higher than depreciation, amortization, and impairment losses, and secondly by positive currency effects, especially the performance of the Brazilian real against the euro. In addition to the necessary replacement and maintenance investments, MAN continued to invest primarily in developing new products and modernizing production in fiscal year 2016.

The increase in investments reflects the higher carrying amount of the investment in Scania, which rose to €2,837 million (previous year: €2,708 million). For further information, see the "Notes to the Consolidated Financial Statements."

Assets leased out rose, mainly as a result of the increase in sales with buyback obligations at MAN Truck & Bus. The increase in inventories is largely due to growth in new and used vehicle stock at MAN Truck & Bus. The higher trade receivables figure is mainly attributable to MAN Truck & Bus, while MAN Diesel & Turbo recorded a decline.

Other noncurrent and current assets declined to €1,348 million (previous year: €1,472 million). A significant factor driving this reduction was the repayment of loans that MAN SE had extended to MAN Financial Services GmbH, Munich, and its assigned national companies.

Pension provisions increased, primarily due to remeasurement effects in connection with a lower discount rate in Germany.

Financial liabilities amounted to €2,995 million as of December 31, 2016 (previous year: €2,515 million). The repayment of bonds of €500 million was more than offset by new loans of €850 million from Volkswagen AG as well as new loans raised by MAN Latin America.

The increase in provisions was largely attributable to the provisions for restructuring measures at MAN Diesel & Turbo and MAN Latin America.

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. The prior-year figure included liabilities from the profit and loss transfer agreement and tax allocation, which were transferred in the year under review.

Equity rose to €5,850 million as of December 31, 2016 (previous year: €5,565 million). The net changes recognized in other comprehensive income of €195 million mainly relate to the higher carrying amount of the investment in Scania. The preparation of the consolidated financial statements after appropriation of net profit/loss led to an increase of €99 million in reported equity as of December 31, 2016. As a result of the change in equity, the more pronounced increase in noncurrent assets (intangible assets, property, plant, and equipment, and investments) led to a drop in the ratio of equity to noncurrent assets by three percentage points from 75% to 72%. The MAN Group's equity ratio declined slightly as of December 31, 2016 and amounted to 30.1% (previous year: 30.7%).

### 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.

## Overall assessment by the Executive Board: Profitability unsatisfactory overall; MAN Truck & Bus performing well; programs for the future initiated at MAN Latin America and MAN Diesel & Turbo

### Forecast versus actual figures MAN Group

| € million | Actual 2015 | Original forecast for 2016 | Most recent forecast for 2016 | **Actual 2016** | Change 2016 to 2015 |
|---|---|---|---|---|---|
| Sales revenue | 13,702 | Slightly below previous year | Slightly below previous year | 13,564 | –1% |
| Operating profit | 92 | Significantly above previous year | Significantly above previous year | 204 | €+112 million |
| Operating return on sales (%) | 0.7% | Significantly above previous year | Significantly above previous year | 1.5 % | +0.8 percent-age points |

### Forecast versus actual figures Commercial Vehicles

| € million | Actual 2015 | Original forecast for 2016 | Most recent forecast for 2016 | **Actual 2016** | Change 2016 to 2015 |
|---|---|---|---|---|---|
| Sales (units) | 102,474 | Unchanged as against the previous year | Unchanged as against the previous year | 102,235 | – |
| Sales revenue | 9,954 | Will fall slightly short of prior-year level | Unchanged as against the previous year | 10,002 | +1% |
| Operating profit/loss | –101 | Significantly above previous year, including the figure before special items | Significantly above previous year, including the figure before special items | 209 | €+311 million |
| Operating return on sales (%) | –1.0% | Significantly above previous year, including the figure before special items | Significantly above previous year, including the figure before special items | 2.1% | +3.1 percent-age points |

### Forecast versus actual figures Power Engineering

| € million | Actual 2015 | Original forecast for 2016 | Most recent forecast for 2016 | **Actual 2016** | Change 2016 to 2015 |
|---|---|---|---|---|---|
| Order intake | 3,408 | Slightly above prior-year level | Unchanged as against the previous year | 3,281 | –4% |
| Sales revenue | 3,775 | Noticeably below previous year | Noticeably below previous year | 3,593 | –5% |
| Operating profit | 283 | Significantly below previous year | Significantly below previous year | 39 | €–244 million |
| Operating return on sales (%) | 7.5% | Significantly below previous year | Significantly below previous year | 1.1% | –6.4 percent-age points |

The MAN Group largely met its forecast targets in fiscal 2016. However, the Group's profitability remained well below its long-term targets due to the challenging market situation in several divisions. The Executive Board of the MAN Group therefore considers business developments to be unsatisfactory overall. MAN again reacted in a timely manner, introducing programs for the future in fiscal 2016 to secure the long-term competitiveness of all its divisions. Measures to improve the cost structure were defined and initiated at both MAN Latin America and MAN Diesel & Turbo.

The MAN Group's sales revenue was down slightly on the previous year, as forecast. As expected, operating profit improved significantly year-on-year to €204 million (previous year: €92 million). The operating return on sales improved by 0.8 percentage points to 1.5%. Excluding special items resulting from restructuring measures, operating profit also rose significantly to €417 million (previous year: €277 million).

In the Commercial Vehicles business area, MAN Truck & Bus posted an encouragingly clear increase in profit, buoyed by the structural improvements introduced in previous years and material growth in the European commercial vehicles market. In contrast, MAN Latin America's operating loss was worse than expected due to the persistently weak market in full-year 2016 and the necessary restructuring expenses. As expected, the unit sales recorded by the business area matched the prior-year level overall. Sales revenue was even up slightly on the 2015 level, exceeding the original forecast for the full year. At €209 million, operating profit in the Commercial Vehicles business area was up significantly year-on-year and thus also materially exceeded the prior-year figure before special items (€84 million) in absolute terms, as forecast. As a result, the operating return on sales rose noticeably to 2.1% in 2016.

MAN fell short of its order intake targets in the Power Engineering business area. In the half-yearly financial report, we had already revised our original forecast of a slight increase in order intake to reflect a value on a level with the previous year. At MAN Diesel & Turbo, the Engines & Marine Systems and Turbomachinery strategic business units in particular received fewer orders than in the previous year due to market-related factors. This could not be completely offset by the increase in orders received by the Power Plants strategic business unit, with the result that order intake in the Power Engineering business area was down 4% on the previous year overall. Sales revenue in the Power Engineering business area was down noticeably on the prior-year figure as forecast. Operating profit was also negatively impacted by the necessary restructuring expenses and only amounted to €39 million (previous year: €283 million). The operating return on sales decreased accordingly by 6.4 percentage points to 1.1%. As expected, operating profit excluding restructuring expenses declined year-on-year to €194 million (previous year: €283 million) for volume and margin-related reasons.

# THE DIVISIONS IN DETAIL

## MAN Truck & Bus

- **Significant growth in European truck market**
- **Considerable improvement in operating profit**
- **PACE2017 program for the future has clear effect on results**

**MAN Truck & Bus**

| € million | 2016 | 2015 |
|---|---|---|
| | | |
| Order intake | 10,342 | 10,059 |
| Sales revenue | 9,243 | 8,997 |
| Vehicle sales (units) | 83,199 | 79,222 |
| Operating profit before special items [1] | 416 | 205 |
| Operating return on sales (%) before special items [1] | 4.5 | 2.3 |
| | | |
| Operating profit | 416 | 20 |
| Operating return on sales (%) | 4.5 | 0.2 |

[1] 2015: Special items comprise restructuring expenses in the amount of €185 million.

### Economic environment

The European truck market again developed positively in 2016 following significant growth in the previous year. Demand continued to be driven by low interest rates, the low oil price, and a euro exchange rate conducive to foreign trade. The European market volume in the segment for trucks over 6 t was again up significantly on the prior-year level, at approximately 351,000 units (previous year: 316,000 units). In contrast, the market declined in a number of regions outside of Europe that are important to MAN, such as Turkey and Saudi Arabia. Competitive pressure was high in all markets. MAN Truck & Bus recorded an 8% increase in new registrations to approximately 56,000 units in the European market for trucks over 6 t, giving the company a market share of 15.9% (previous year: 16.3%).

The European bus market grew slightly in 2016 to approximately 29,000 units (previous year: 28,100 units). The volume markets Germany and Spain continued to expand in the year under review, while demand eased in France and the UK. After an extremely weak prior year, Norway and the Netherlands saw strong growth in new registrations. MAN Truck & Bus recorded a 1.5% increase in new registrations to 3,555 units in the European market for buses over 8 t. The company's market share in 2016 was almost unchanged at 12.2% (previous year: 12.5%).

### Business developments

The Trucks business generated an order intake of €8.8 billion (previous year: €8.6 billion). This was mainly driven by the year-on-year rise in order intake in Europe, particularly in Germany. In comparison, as expected, the UK, Saudi Arabia, and Turkey in particular saw declines in order intake compared with the prior year. Measured in terms of units, orders rose by 1% over the previous year to a total of 79,757 trucks (previous year: 78,713).

Sales revenue in the Trucks business rose by 3% to €7.8 billion. At 77,073 trucks, unit sales were up significantly on the prior-year level (73,117), mainly as a result of higher unit sales in Poland and Italy. In contrast, countries such as Saudi Arabia and Turkey saw a downward trend in unit sales.

Order intake in the Bus business was up 9% on the prior-year figure, at €1.6 billion. Year-on-year, higher order intake in Tunisia, Morocco, and Georgia, among other countries, compensated for lower order intake in Israel and Mexico. Orders rose by 10% to 6,211 buses (previous year: 5,649).

The Bus business generated sales revenue of €1.5 billion, on a level with the previous year. It sold 6,126 buses (previous year: 6,105) with positive unit sales growth in Mexico and Spain, among other countries.

### Operating profit

MAN Truck & Bus's operating profit improved significantly to €416 million, well above the prior-year figure before special items (€205 million). Both volume- and margin-related factors contributed to the increase. The PACE2017 program for the future, which covers all areas in the company, had a significant positive impact, with improvements on both the sales and cost sides. Production sites are being restructured, administrative areas streamlined, processes optimized, and productivity increased. This program for the future will lift profitability and competitiveness at MAN Truck & Bus in order to finance large-scale investments in new products.

## MAN Latin America

- **Market environment still strongly impacted by recession**
- **Again noticeable decline in vehicle sales and sales revenue**
- **Comprehensive restructuring measures introduced**

**MAN Latin America**

| € million | 2016 | 2015 |
|---|---|---|
| Order intake | 861 | 1,047 |
| Sales revenue | 861 | 1,047 |
| Vehicle sales (units) | 20,369 | 24,472 |
| Operating loss before special items [1] | –132 | –120 |
| Operating return on sales (%) before special items [1] | –15.3 | –11.5 |
| Operating loss | –190 | –120 |
| Operating return on sales (%) | –22.1 | –11.5 |

[1] 2016: Special items comprise restructuring expenses in the amount of €58 million.

### Economic environment

The Brazilian commercial vehicles market declined significantly in 2016 due to the difficult political and business climate. After a 3.8% decline in GDP in 2015, the Brazilian economy contracted again by around 3.6% in the year under review. Austerity measures introduced in previous years by the Brazilian government served to fuel unemployment in 2016, while strict credit conditions throughout the banking sector exacerbated the recessive trend. State-subsidized financing through the Brazilian Development Bank's program for new-vehicle purchases remained very restrictive and with unfavorable terms. In addition, many government orders, including those for school buses, were tabled due to budgetary constraints.

In this environment, new registrations for trucks in Brazil weighing 5 t and over dropped by 30% to 49,281 units in 2016 (previous year: 70,735). MAN Latin America recorded 13,690 new registrations (previous year: 19,543), maintaining a prominent position in the Brazilian truck market under intense competition and a shrinking market. The company's market share improved slightly to 27.8% (previous year: 27.6%) in the year under review.

The Brazilian bus market declined by 34% to 11,162 units in 2016 (previous year: 16,792). With a total of 1,798 new registrations (previous year: 3,659), MAN Latin America achieved a market share of 16.1% (previous year: 21.8%), maintaining its number two position. The decrease in market share was mainly attributable to the lower volume of government-sponsored school buses — a market segment in which MAN Latin America enjoyed above-average representation in the previous year.

Brazil's commercial vehicle exports also declined year-on-year as a result of the ongoing weak economy in other Latin American markets. MAN Latin America secured its position as one of Brazil's leading exporters, with 16.1% (previous year: 16.2%) of the country's commercial vehicle exports.

### Business developments

MAN Latin America sold a total of 20,369 commercial vehicles in the reporting period (previous year: 24,472). Sales revenue decreased to €0.9 billion (previous year: €1.0 billion) due to market-related factors.

The company sold 12,100 vehicles (previous year: 16,164 vehicles) in the increasingly competitive Brazilian truck market. This corresponded to a decrease of 25% as against the previous year. MAN Latin America sold 1,490 bus chassis in Brazil (previous year: 2,569), a decrease of 42%. The ongoing deterioration in economic conditions had a substantial impact on these developments.

### Operating loss

Lower demand, continuous and intense competition, and the resulting pressure on margins resulted in a higher operating loss. MAN Latin America introduced substantial restructuring measures in both production and administrative areas as well as in sales to improve efficiency and adjust to the changing market environment. The resulting restructuring expenses of €58 million impacted the operating loss, which rose to €190 million (previous year: operating loss of €120 million). Excluding these special items, the operating loss increased by only €12 million compared with the previous year to €132 million.

## MAN Diesel & Turbo

- **Difficult marine and turbomachinery market environments**
- **Significant decline leads to operating loss**
- **Base Camp 3000+ program for the future initiated**

### MAN Diesel & Turbo

| Mio € | 2016 | 2015 |
|---|---|---|
| | | |
| Order intake | 2,808 | 2,949 |
| Sales revenue | 3,113 | 3,305 |
| Operating profit before special items [1] | 126 | 216 |
| Operating return on sales (%) before special items [1] | 4.1 | 6.5 |
| | | |
| Operating profit/loss | –29 | 216 |
| Operating return on sales (%) | –0.9 | 6.5 |

[1] 2016: Special items comprise restructuring expenses in the amount of €155 million.

### Economic environment

MAN Diesel & Turbo's markets are subject to various regional and economic influences. This means that the performance of the different businesses is usually independent from one another.

Order activity in the merchant shipping sector was again extremely subdued in 2016. Existing and emerging overcapacity in the market had a negative impact on the capacity utilization of the entire merchant fleet, with bulk carriers especially affected by low freight rates. Lower transport rates and greater competitive pressure also led to further consolidation of the container shipping sector through mergers and market elimination. Despite the slight recovery in oil prices, the existing overcapacity in the offshore sector continued to inhibit investment in offshore oil production, resulting in a nearly complete decline in shipbuilding. In contrast, a positive trend was again seen in the demand for cruise ships and ferries. The trend toward gas-powered ships weakened as prices for liquid fuels declined slightly. Other factors contributing to this reluctance included the ongoing lack of refueling infrastructures for gas-powered ships in some areas, as well as uncertainty surrounding future emission standards. The special market for government vessels saw sustained positive growth. Overall, the marine market declined significantly year-on-year in 2016. China, Korea, and Japan continued to be the dominant shipbuilding countries, with a global market share of more than 80% in terms of tonnage ordered. Lower market volumes across all market segments resulted in significantly higher competitive pressure, triggering a noticeable drop in prices.

Demand for energy solutions in developing countries and emerging economies continued to increase over the course of the year. However, tougher economic and financing conditions led to noticeable delays in project implementation. Regions such as the Middle East, Southeast Asia and, increasingly, South America, remain relevant markets for the Power Plants strategic business unit. Overall, demand for decentralized diesel and gas engine power plants was up slightly from the previous year. The shift away from heavy oil power plants toward dual-fuel and natural gas power plants continued, but stronger competitive and price pressure is noticeable across all projects, impacting the earnings quality of orders.

The market for new turbomachinery is largely driven by investment projects for oil and gas, the processing industry, and power generation. Due to the persistently low oil price, leading oil and gas businesses again severely reduced their capital expenditures, causing projects to be further delayed or even canceled. The moderate increase in the oil price over the past few months has not yet led to a recovery in demand. Demand for products in the processing industry and power generation also remained weak overall in 2016. Overcapacity in a number of industries such as steel is preventing a recovery in the corresponding markets, and causing intensified competition at many manufacturers. Overall, the market volume for turbomachinery during the year under review was again significantly lower than in the preceding year, and competitive and price pressures remain very strong.

### Business developments

MAN Diesel & Turbo reported an order intake of 11.8 gigawatts (GW) for large two-stroke engines, compared with 19.1 GW in the previous year. Order intake for four-stroke medium-speed diesels used in the company's own propulsion engines and for powering on-board equipment fell short of the prior-year figure. MAN Diesel & Turbo received orders for 558 original and licensed engines in total with a combined output of 1.7 GW, compared with 894 original and licensed engines with an output of 2.1 GW in 2015. Overall, at €1,502 million, order intake in the Engines & Marine Systems strategic business unit was 4% lower than in the previous year.

MAN Diesel & Turbo's power plants business received orders for 118 four-stroke engines in 2016 compared with 91 in the prior year. The supplied products range from an engine-generator unit to comprehensive power plant solutions including ancillary systems and fuel preparation. Orders were mainly generated in developing countries and emerging economies, particularly in Arabic-speaking countries and Asia. For example, Turkish energy company Karpowership ordered twelve engines with a combined output of 227 MW for its floating power plants. These are a flexible solution to urgent energy bottlenecks from the water. German energy provider EnBW awarded MAN Diesel & Turbo the contract for the construction of a gas engine power plant with cogeneration. The plant will be powered by three MAN gas engines. As well as electricity, it will also generate up to 30 MW for district heating. At €460 million, order intake in the Power Plants strategic business unit was up significantly on the prior-year figure of €334 million.

Order intake in the Turbomachinery strategic business unit declined by 20% in fiscal 2016 to €847 million due to the persistently difficult market environment.

The orders generated by MAN Diesel & Turbo are often part of larger projects for which delivery times of up to several years and partial deliveries based on construction progress are common practice. Sales revenue in the new construction business therefore tends to mirror the order intake trend with a corresponding delay.

The Engines & Marine Systems strategic business unit generated sales revenue of €1,510 million in the year under review, down 6% on the 2015 figure. The delivery of two-stroke engines exclusively built by licensees decreased significantly year-on-year in 2016. These engines are largely used in merchant ships. MAN Diesel & Turbo maintained its leading market position. The medium-speed engines business delivered fewer engines in fiscal 2016 than in the previous year. A substantial share of these deliveries concerned the cruise liner and government vessel segments. The four-stroke engine business continued to experience high competitive and price pressure in 2016.

At €498 million, sales revenue in the Power Plants strategic business unit was up 4% on the prior-year figure in 2016 and was primarily generated by major projects, mostly in the Middle East, Europe, Central America, and Africa. MAN Diesel & Turbo delivered eight engines for a new power plant in Nicaragua, for instance. The power plant will have an output of 140 MW once it has been completed and put into operation and will cover around 10% of Nicaragua's total energy needs.

In the Turbomachinery strategic business unit, sales revenue declined by 10% in the year under review to €1,106 million as a result of lower order intake in previous years.

The after-sales business recorded healthy growth in both order intake and sales revenue. The after-sales business for large-bore engines in the marine and power plant sector in particular benefited from growing interest in long-term maintenance contracts.

**Operating loss**

MAN Diesel & Turbo recorded an operating loss of €29 million in 2016, significantly below the prior-year figure (operating profit of €216 million). As a result, the operating return on sales decreased by 7.4 percentage points to –0.9%. The deterioration is attributable to the decline in sales revenue, the significant pressure on margins in the new construction business, and lower capacity utilization levels. MAN Diesel & Turbo also launched the comprehensive Base Camp 3000+ program to safeguard future viability in the year under review, including measures to optimize internal processes and improve the cost structure. In this context, the operating loss was negatively impacted by restructuring expenses in the amount of €155 million. Excluding these special items, MAN Diesel & Turbo recorded an operating profit of €126 million and an operating return on sales of 4.1%.

## Renk

- **Stable order intake**
- **Steady sales revenue**
- **Operating return on sales again in double digits**

**Renk**

| € million | 2016 | 2015 |
|---|---|---|
| Order intake | 486 | 483 |
| Sales revenue | 496 | 487 |
| Operating profit | 67 | 68 |
| Operating return on sales (%) | 13.5 | 14.0 |

### Economic environment

According to the *Verband deutscher Maschinen- und Anlagenbau* (VDMA — German Engineering Federation), global machine construction sales stagnated in 2016 for the second year in a row, with slight regional differences. Moderate growth in China contrasted with declines in the U.S.A. and Japan. Sales in the EU were roughly on a level with the previous year.

### Business developments

Renk's broad range of specialized solutions for gear unit and slide bearing applications covers a multitude of different market segments.

Order intake in the Special Gear Units business was once again noticeably above the prior-year level in 2016. Demand for complex gear solutions for maritime applications remained strong: in addition to follow-up orders from various long-term coast guard and naval procurement programs, a number of major orders for gear unit sets were secured in 2016. In the stationary gear unit segment, growth was recorded in applications for the plastics processing industry, while orders for mill gear units decreased.

The Vehicle Transmission business also posted significant order growth in 2016, primarily due to a larger order to supply tracked vehicle transmissions coupled with other additional services. Renk's test bed activities in 2016 almost matched order intake from the previous year.

In contrast, the Standard Gear Units business recorded a material decline in order intake. This negative impact was largely due to the absence of substantial new orders for offshore wind power gear units.

Order intake in the Slide Bearings business was also down on the prior-year level in 2016. The decline was mainly attributable to lower demand for E Standard bearings for economic reasons.

Renk's sales revenue in the year under review was easily on a level with the previous year. The Special Gear Units, Vehicle Transmissions, and Standard Gear Units businesses posted moderate growth, but the Slide Bearings business declined. Operating profit at Renk was roughly on a level with the previous year.

# FINANCIAL STATEMENTS OF MAN SE (HGB)

MAN SE, domiciled in Munich, 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. 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 2016."

MAN SE recorded a loss after tax of €99 million for the fiscal year before loss absorption, compared with a profit after tax of €513 million before the transfer of profit in the previous year. The deterioration of €612 million was primarily due to the decline in net income from investments and the higher tax expense.

### Results of operations [1]

| € million | 2016 | 2015 |
|---|---|---|
| Net investment income | 63 | 508 |
| Net interest expense | –34 | –26 |
| Sales revenue | 20 | 23 |
| Cost of sales | –17 | –19 |
| **Gross profit** | **3** | **4** |
| General and administrative expenses | –56 | –70 |
| Other operating income | 15 | 23 |
| Other operating expenses | –15 | –31 |
| Taxes on income | –75 | 105 |
| **Profit/loss after tax** | **–99** | **513** |
| **Profit transferred/loss absorbed on the basis of a domination and profit and loss transfer agreement** | **99** | **–513** |
| **Net income for the fiscal year** | **–** | **–** |

[1] Presentation and prior-year figures adjusted; for details please refer to the annual financial statements of MAN SE.

Net investment income deteriorated by €445 million year-on-year, mainly due to lower income and higher losses from profit and loss transfer agreements. Losses from profit and loss transfer agreements primarily relate to the operating loss recorded by MAN Diesel & Turbo SE, which was impacted by restructuring expenses. In the previous year, net investment income included the dividend of €138 million from Scania. There was no dividend for the year under review.

General and administrative expenses have already been reduced significantly by the reorganization of MAN SE and amounted to €56 million. Other operating income was down €8 million on the previous year. Other operating expenses declined by €16 million to €15 million. The prior-year figure included one-time costs in connection with the reorganization of MAN SE.

The net loss for the fiscal year before loss absorption (€99 million) was absorbed by Volkswagen Truck & Bus GmbH in accordance with the domination and profit and loss transfer agreement entered into in fiscal 2013. Profit of €513 million was transferred in the previous year.

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. Volkswagen Truck & Bus GmbH will make the contractually defined cash compensation payment (€3.07) to each MAN SE free float shareholder.

### Net assets and financial position

| € million | 2016 | 2015 |
|---|---|---|
| Fixed assets | 5,356 | 5,190 |
| Receivables [1] | 461 | 535 |
| Marketable securities and cash and cash equivalents | 264 | 430 |
| **Total assets** | **6,081** | **6,155** |
| Equity | 2,125 | 2,125 |
| Financial liabilities | 805 | 1,292 |
| Other liabilities and provisions | 3,151 | 2,738 |
| **Total equity and liabilities** | **6,081** | **6,155** |

[1] Including deferred items

Total assets decreased by €74 million year-on-year to €6,081 million. As of the reporting date, MAN SE's fixed assets primarily comprised shares in affiliated companies (€3,744 million; previous year: €3,595 million) and other long-term equity investments (€1,306 million; previous year: €1,306 million), in particular the shares in Scania acquired in fiscal years 2006–2008. The share of total assets attributable to fixed assets rose to 88.1% as of December 31, 2016 (previous year: 84.3%).

Bank balances from the Group's central financing by MAN SE decreased by €166 million to €264 million in the fiscal year. Other current assets declined by €74 million to €461 million.

Total equity did not change compared with the previous year. The ratio of equity to total assets was 35.0% as of December 31, 2016 (previous year: 34.5%).

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 €487 million year-on-year to €805 million (previous year: €1,292 million). These stem from the MAN Group's central financing, among other sources.

Other liabilities and provisions mainly include liabilities to affiliated companies, provisions for taxes, other provisions, and provisions for pensions. 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/others and less financial liabilities from intragroup finance transactions. MAN SE's net liquidity amounted to €–2,817 million as of December 31, 2016 (previous year: €–2,697 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 (5) of the HGB.

### Additional information

The arrangements governing the appointment and dismissal of members of the Executive Board of MAN SE and amendments to the Articles of Association comply with the statutory provisions.

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 176 people as of December 31, 2016 (previous year: 236).

### 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 and MAN Diesel & Turbo SE, which are material divisions — 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. See the "Report on Expected Developments" for further information.

# REPORT ON RISKS AND OPPORTUNITIES

**(includes report in accordance with section 289 (5) of the HGB)**

Managing risks and opportunities is an integral part of corporate management and business processes. In 2017, 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 individual opportunities and risks 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 anticipates and 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 "Risk and Opportunity Management/Internal Control System" ("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 system 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 organizational structure of the risk management and internal control system is based on the MAN Group's management hierarchy. Therefore, roles and responsibilities and committees have 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.

**Standard processes in the risk management system**

The quarterly standard opportunity and risk management process contains identification, measurement, management, monitoring, and communication phases. In this context, individual 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 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 process steps, which follow on from each other in a circular process. 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 individual 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, which forms an integral part of it, also comprise the accounting-related processes as well as all risks and controls with respect to financial reporting. 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 external auditors also assess the accounting related processes as part of their audit activities.

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 at all levels of the MAN Group with existing regulations aimed at reducing process-related and organizational risks.

## 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 transport volumes, as well as a 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 industrialized nations and emerging economies. In the southern eurozone, the situation of some financial institutions, whose ability to withstand a crisis remains uncertain, is hindering sustained economic recovery. Moreover, the effects of the UK's plan to leave the EU are associated with risks. 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 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 as this becomes increasingly interconnected. 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. 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 consider the probability of a global recession to be low. 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 significant economic sales risks. Structural adjustments may involve substantial one-time expenses.

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

In addition, there is a risk 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 Korea, China, and Japan. Volatile demand in shipbuilding and high capital expenditure by a number of licensees have led to overcapacity in the marine engine market, which may give rise to risks ranging from a decline in license revenue to 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 and maintaining close working relationships with all licensees, including receivables management to secure our license revenue.

### 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 significant risks that budgeted costs will be exceeded. The rollout of new products involves 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 5% of Group sales revenue. MAN Diesel & Turbo's 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 Transporter, which was developed in cooperation with Volkswagen AG, and enlarges MAN Truck & Bus's portfolio to include a product from the light 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 and see the challenges posed by the digital transformation as an opportunity.

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 detective 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 patents, or the unauthorized disclosure of Company-specific expertise. MAN therefore monitors the sales markets and takes legal steps if necessary to protect the Company's expertise.

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, 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 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 towards 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 and regularly submitted to MAN SE's Executive Board.

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 significant. In each case, MAN reviews the legal situation, with the support of external legal advisors as appropriate, to defend itself against unjustified claims or assert its own claims. Further information can be found in note (30) Litigation/legal proceedings in the "Notes to the Consolidated Financial Statements."

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 the 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 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 offerings have a positive impact on customer satisfaction, quality, and sales revenue in all divisions.

MAN is currently examining the changes in the workplace and any new technical know-how requirements resulting from the digitization of working processes. We will develop a large range of new offerings for employees to this end.

A breach of laws or regulations by employees or managers, either intentionally or by gross negligence, would expose the MAN Group to significant risk. MAN's compliance management system employs a wide range of measures to manage risks relating to corruption, anti-trust 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.

Market risk comprises currency, interest rate, and commodity price risk. The international nature of the MAN Group's business activities entails a significant volume of cash flows in a variety of currencies. If MAN companies carry out transactions in a currency other than their functional currency, they are exposed to currency risk. Changes in exchange rates can affect prices for goods and services. 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. Financial management activities entail interest rate risk 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 substantial amounts of raw materials. 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 exposed to credit risk through its business operations and financing activities. 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 transactions and 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.

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

Economic hedges are generally used to hedge currency, interest rate, and commodity risks. Their effectiveness is tested regularly. Cash flow hedges and, in exceptional cases, fair value hedges are used for hedge accounting to manage currency risk. Further information on market, liquidity, and credit risk management can be found in note (35) in the "Notes to the Consolidated Financial Statements."

In order to reduce the financial risks inherent in defined benefit pension plans, and as a result of legal regulations abroad, the MAN Group's defined benefit obligations are largely funded through pension plan assets that are ring-fenced from its business assets. For detailed information on pensions, please refer to 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. Risks may be able to be only partially offset by the opportunities identified. With regard to the individual 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 the probability of occurrence was assumed to be low. In 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 relate to excess costs in the further development of our products. The main process-related risks arise from legal disputes as well as the issue of supplier defaults. Among financial risks, future currency developments are also an area of 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 2017 will continue to focus on market risk management.

# REPORT ON EXPECTED DEVELOPMENTS

Slightly stronger global economic growth, but ongoing difficult environment in many of the markets relevant to the MAN Group; sales revenue up slightly on the previous year in 2017; significant improvement 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 stronger global economic growth

We prepare our forecasts on the basis of current estimates by third-party institutions, including economic research institutes and banks.

Our planning is based on the assumptions that global economic growth will be slightly above the prior-year level in 2017. We see risks in the volatility on the financial markets, protectionist tendencies, and structural deficits in individual countries. In addition, geopolitical tensions and conflicts will continue to weigh on growth prospects. In the majority of the industrialized nations, we expect the economic upturn to continue with growth rates stable overall. Most of the emerging economies will presumably record stronger growth than in the previous year, with the highest rates expected in the emerging economies of Asia.

Western Europe's economic recovery is likely to slow slightly in 2017. The resolution of structural problems as well as the unknown effects of the exit negotiations between the European Union (EU) and the UK present major challenges. We anticipate high growth rates for Central Europe in 2017, similar to those recorded in the past fiscal year. The economic situation in Eastern Europe should continue to stabilize, providing the latent conflict between Russia and Ukraine does not intensify again. In Germany, GDP is expected to grow in 2017 at much the same rate as in the year under review: the stable situation in the labor market is likely to continue and boost consumer spending.

Economic output in Russia will presumably increase slightly after the downward trend in recent years.

For the North American economies, we anticipate stronger year-on-year growth in 2017 that should exceed the prior-year level in the U.S.A. and Canada. In contrast, the growth rate of the Mexican economy will probably slow.

Brazil will, in all likelihood, overcome its recession in 2017 and record modest growth. The Argentinian economy is expected to regain momentum despite the persistently high inflation rate.

China's economic growth will probably remain at a high level in 2017, but will be slower than in previous years. In India, the economy should expand at around the same rate as in the prior year. The economic situation in Japan is expected to remain largely unchanged.

### Commercial Vehicles: European market down slightly, Brazilian market up on the previous year

For Western Europe and Germany, we anticipate that demand will be slightly lower in 2017 than in the previous year. We predict a sharp increase in demand in the markets in Eastern and Central Europe. Overall, we expect the European market to contract slightly.

In Russia, we expect a strong recovery in demand in 2017 based on the low level in 2016.

Demand on the Brazilian market will firm in 2017 compared with the weak prior year, now that the economy shows signs of a recovery.

In China, the world's largest truck market, registrations in 2017 should slightly exceed the 2016 figure. In the Indian market, we expect material growth due to the positive economic environment and the implementation of numerous infrastructure initiatives.

The bus markets relevant to MAN should see a modest increase in demand in 2017. In Western Europe, we expect demand to be down on the 2016 figure in 2017. We anticipate stronger demand than in the previous year in Central and Eastern Europe. New registrations in South America should be noticeably higher year-on-year.

**Power Engineering: Market environment remains strained**

We expect the difficult overall market environment for the Power Engineering business area to persist in 2017 and price pressure to continue unabated as a result.

Order volumes for two-stroke engines used in merchant shipping are expected to remain approximately at the prior-year level in 2017. Demands for high energy efficiency and low pollution will continue to significantly influence ship design in the future. We expect demand for special-purpose ships such as cruise liners, ferries, and government vessels to remain strong. Despite the recent slight increase in oil prices, new orders in the offshore segment should remain at a very low level due to the existing overcapacity. In general, we expect the marine market to be at the previous year's level. Competitive pressure will continue unabated.

Energy demand is closely correlated with economic and demographic trends, particularly in developing countries and emerging economies. The global trend toward decentralized power plants and gas-based applications remains undiminished. For 2017, we expect demand to increase slightly compared with the previous year, but remain at a low level overall.

Despite the slight increase in the price of oil, the market environment for turbomachinery is likely to continue to be difficult in 2017, accompanied by high pricing and competitive pressures caused by expectations of an unfavorable economic and political situation in a number of relevant markets. As a result, we expect the 2017 market for turbomachinery and turbo gear units to remain at the low level of the previous year.

Orders and sales revenue in 2017 generated by propulsion components should be roughly on a level with the 2016 figure.

Competitive pressure is expected to increase in the after-sales business due to the unutilized capacity in new construction.

**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:

We anticipate slight year-on-year growth in the MAN Group's sales revenue in 2017. Unit sales and sales revenue in the Commercial Vehicles business area are expected to increase noticeably, with contributions from both MAN Truck & Bus and MAN Latin America. In contrast, we expect order intake on a level with the previous year in the Power Engineering business area. Sales revenue will be down significantly on the 2016 figure following the low order intake in previous years.

The MAN Group's operating profit and operating return on sales will be significantly higher than in 2016, and will also noticeably exceed the 2016 figures before special items.

The accounting principles used here are consistent with those used in the 2016 financial statements.

### Long-term growth strategy

Overall, global demand for innovative solutions in the transportation and energy sectors will continue to rise. Going forward, the MAN Group will therefore continue to pursue its profitable growth strategy with a focus on transportation and energy. The after-sales business is being continually expanded in all divisions. Technology leadership remains a critical success factor for MAN. MAN develops innovative products and solutions that meet the needs of customers and markets. Its focus is on reducing fuel consumption and emissions, as well as generating energy efficiently, reliably, and in an environmentally-friendly manner. MAN will also exploit the opportunities of the digital transformation and unlock new potential with new business models based on innovative mobility solutions.

### Measures to improve earnings in all divisions

MAN has taken measures to secure profitability in all divisions. In the commercial vehicles business, we will continue to systematically implement the PACE2017 future growth program at MAN Truck & Bus as well as the measures at MAN Latin America. PACE2017 covers all areas of MAN Truck & Bus and addresses improvements on both the performance and cost sides. Production sites are being restructured, administrative areas streamlined, and processes optimized. We expect this to have a clear effect on results in 2017 as well. The Base Camp 3000+ program for the future was initiated at MAN Diesel & Turbo in the fall of 2016. The package of measures aims to sustainably improve MAN Diesel & Turbo's earnings by €450 million. As well as updating the strategy and portfolio, the program is designed to optimize internal processes and substantially improve the cost structure. This will establish clear competency allocation for each site and simplified structures. Efficiency and optimization measures are planned for development, sales, quality, and product costs in particular.

### MAN as part of the commercial vehicles holding group

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 Volkswagen Truck & Bus commercial vehicles holding group. The aim is to turn Volkswagen Truck & Bus and its brands into a global champion. The brands will, however, retain their identities and full operational responsibilities. Synergies in procurement in particular have already led to annual savings of around €200 million within the alliance. In the medium term, Volkswagen Truck & Bus aims to generate synergy potential of up to €1 billion a year, but given the long product lifecycles in the commercial vehicles business, it will take 10 to 15 years before this has been fully exploited. In the long term, the entire powertrain — the most important cost driver for a truck — is relevant for joint development activities.

An important step here is the lead engineering concept, which sets out clear principles for joint development activities within the Group. In the future, cross-brand teams from MAN Truck & Bus, MAN Latin America, and Scania will together expedite the development of core drive train components under the umbrella of Volkswagen Truck & Bus. In the process, common platforms for engines, transmissions, axles, and exhaust after-treatment systems will be created that can then be adapted by the individual brands.

Partnerships will play an important role along the road to becoming a global champion. In 2016, Volkswagen Truck & Bus GmbH entered into a far-reaching, strategic alliance with U.S. commercial vehicles manufacturer Navistar International Cooperation, Lisle, U.S.A. (Navistar) and will acquire 16.6% of Navistar shares by way of a capital increase. The alliance includes master agreements for strategic technology and supply collaboration and a joint venture to pursue joint global sourcing opportunities. The transaction is expected to be completed in the first quarter of 2017.

### 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.

# EMPLOYEES

Being a leading employer is part of MAN's corporate strategy and means attracting talented and skilled employees, offering them innovative working environments, and actively promoting diversity in the Company both now and in the future. The digital transformation is changing the way we work and presents new challenges — and numerous opportunities — for MAN.

Digitization and the entry into the labor market of a new generation of employees and their needs and collaboration styles are also changing the face of work. MAN will primarily need IT specialists in the future as well as traditional mechanical engineers and electrical and computer engineers, and is striking out in new directions to attract suitable talent and generate interest in the product. For instance, the Company participated in the first Techfest at the Technical University of Munich as a major sponsor. An exciting big data challenge promoted MAN as an innovative IT employer among the students.

It is equally important that MAN retains employees and gives them flexibility and freedom. The introduction of the Flex Work pilot project at the Munich site, which has been actively used by employees since its launch, enables flexibility in working hours and location.

Workplace design and facilities also play an important role in work 4.0. Three "future office innovation labs" have been initiated at the Munich site, for example. Here, new open space concepts with private and social areas are being designed and tested in practice.

Diversity management extends far beyond the promotion of women and is a key focus at MAN. A diverse workforce increases competitiveness and as such, is a cornerstone of the Company's success. This is why MAN actively recognizes and promotes employee diversity. The Company defines diversity based on the following dimensions: gender, nationality, disability, and age. MAN's clear position on the promotion of diversity — and thus an appreciation of different skills as well as professional and personal experience — creates value for the Company.

Programs to help employees balance work and family life were again expanded in the year under review. A master agreement with a care platform assists employees in organizing care and support for family members, especially emergency child care.

Employees on parental leave or other passive employment contracts have had access to the MAN intranet since 2016. This enables them to keep up-to-date on the latest developments and news at the Company, view the internal jobs board, and access professional development opportunities, and primarily serves to facilitate their return to the Company.

# REMUNERATION REPORT FOR FISCAL YEAR 2016

## Executive Board remuneration

Resolutions determining the total remuneration of individual Executive Board members are prepared by the Presiding Committee of MAN SE's Supervisory Board. The full Supervisory Board then determines the total remuneration in accordance with legal requirements. The full Supervisory Board also regularly discusses the structure of the Executive Board remuneration system based on the Presiding Committee's proposals. This system is regularly modified and adjusted as needed in accordance with the recommendation set out in the German Corporate Governance Code (section 4.2.2).

The Supervisory Board's objective and duty is to set remuneration at appropriate levels. The criteria for doing so include in particular the tasks of the respective Executive Board member, their personal performance, the economic situation, the performance of and outlook for the Company, and how customary the remuneration is compared with the Company's peer group and the remuneration structure that applies to other areas of MAN.

In fiscal 2016, Executive Board members were appointed at MAN SE who received remuneration from MAN Truck & Bus AG (Mr. Drees and Mr. Lafrentz) and Volkswagen AG respectively (Mr. Schelchshorn) on the basis of their employment contracts with those companies and in accordance with the remuneration structure and components in effect there. They received no further remuneration from MAN SE. MAN SE reimbursed Volkswagen AG for the remuneration paid to Mr. Schelchshorn, including 10% of the expenses needed to finance the occupational pension plan. MAN Truck & Bus AG reimbursed Volkswagen AG for the remuneration paid to Mr. Schelchshorn, including 65% of the expenses needed to finance the occupational pension plan.

### Remuneration structure and components

The remuneration of Executive Board members comprises fixed salary payments and noncash benefits, pension and other benefit contributions, and 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

#### MAN Truck & Bus AG

MAN Truck & Bus AG introduced a new variable remuneration system for members of the Executive Board for fiscal 2016 onwards. Variable remuneration is calculated on the basis of three equally-weighted components, each of which are 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 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 the previous 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 also financially successful. If the 1.5% threshold for the return on sales is not exceeded, the Return Index is zero, and the overall index for the fiscal year concerned is then also zero.

The **company performance bonus** enables the Executive Board to participate in the business success of MAN Truck & Bus and Volkswagen Truck & Bus. The success of MAN Truck & Bus is based on the operating profit of MAN Truck & Bus (weighting of two-thirds) and the success of Volkswagen Truck & Bus on the return on sales (ROS) of Volkswagen Truck & Bus (weighting of one-third). The calculation is based 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 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.
- Return on sales (ROS) of Volkswagen Truck & Bus
  The average return on sales (ROS) from the year under review and the previous 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 Volkswagen Truck & Bus GmbH reviews and, if necessary, adjusts the target figure on a regular basis (at least once every three years).
  (For fiscal 2016, target achievement is calculated based on the ROS for fiscal 2016 compared with the target figure.)

  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.

The **personal performance bonus** recognizes the individual employee's performance in the past 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 Supervisory Board of MAN Truck & Bus AG.

#### Volkswagen AG

The variable remuneration (bonus) system for management has three components:

- 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 of the Volkswagen Group. It is based on the success criteria derived from the strategy and calculated over a four-year period. The amount of the long-term incentive bonus is generally limited to 200% of the target amount.

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 the previous 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 also 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.

The amount of the **company performance bonus** depends on the financial success of the group company that employs the individual concerned. It is calculated on the basis of operating profit over a two-year assessment period.

The **personal performance bonus** recognizes the individual employee’s performance in the past 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 is determined for each individual in a process that involves several parties.

It fluctuates between a lower and upper limit specified for each salary band.

### C) Occupational pension system

MAN Truck & Bus AG

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, or “capital account plan” with the value of benefits dependent upon the performance of certain fund indices.

Every year, MAN Truck & Bus AG contributes an amount equal to 20% of eligible remuneration, i.e., of the sum of the contractually agreed fixed remuneration and the variable remuneration. 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 fixed annual salary.

Volkswagen AG

In the event of regular termination of service, members of the Board of Management are entitled to a pension including survivors’ benefits.

The agreed benefits are paid or made available on reaching the standard retirement age applicable to the statutory pension insurance system within the meaning of the *Sozialgesetzbuch* (Volume VI of the German Social Insurance Code).

The pension is calculated as a percentage of the basic level of remuneration.

### Special contract provisions

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, in the event of the early termination of their contract without good cause and at the instigation of the Company concerned. Income from activities elsewhere is offset.

If an Executive Board member's contract is terminated at his instigation (members may terminate their contracts without having to cite reasons, observing a period of notice), payments are only made until the end of the notice period. There are no special change-of-control provisions in place.

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

Mr. Lafrentz and Mr. Schelchshorn will not be granted retirement benefits by MAN. Instead, MAN Truck & Bus AG has undertaken to assume for Mr. Lafrentz the expenses associated with continuing his existing retirement benefits in the Volkswagen Group.

In addition, a special arrangement relating to guaranteed variable remuneration was agreed with Mr. Drees, Mr. Lafrentz, and Mr. Schelchshorn. Further information can be found in note (37) in the "Notes to the Consolidated Financial Statements."

### Executive Board members' remuneration in 2016

The remuneration awarded to active members of the Executive Board for their services in fiscal 2016 totaled €4,574 thousand plus €449 thousand for pensions (previous year: €4,754 thousand plus €985 thousand for pensions). 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.

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 September 30, 2014). 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 2016 (benefits granted)

| | Joachim Drees[1, 2] Chief Executive Officer | | | |
|---|---|---|---|---|
| € thousand | 2015 | 2016 | 2016 (Min) | 2016 (Max) |
| Fixed remuneration | 102 | 450 | 450 | 450 |
| Fringe benefits | 23 | 88 | 88 | 88 |
| **Total** | **125** | **538** | **538** | **538** |
| One-year variable remuneration (Performance component 2 / PPB) | 51 | 225 | 0 | 450 |
| Multi-year variable remuneration | | | | |
| Performance component 1 / CPB (2 years) | 51 | 225 | 0 | 450 |
| Long-term remuneration components (3 years) / LTI (4 years) | 51 | 225 | 0 | 450 |
| Other (special arrangements) | 102 | 345 | 1,020 | 120 |
| **Total** | **255** | **1,020** | **1,020** | **1,470** |
| Pension expense | 20 | 210 | 210 | 210 |
| **Total remuneration** | **400** | **1,768** | **1,768** | **2,218** |

| | Jan-Henrik Lafrentz[1, 2] Chief Financial Officer | | | |
|---|---|---|---|---|
| € thousand | 2015 | 2016 | 2016 (Min) | 2016 (Max) |
| Fixed remuneration | 90 | 408 | 408 | 408 |
| Fringe benefits | 8 | 33 | 33 | 33 |
| **Total** | **98** | **441** | **441** | **441** |
| One-year variable remuneration (Performance component 2 / PPB) | 45 | 204 | 0 | 408 |
| Multi-year variable remuneration | | | | |
| Performance component 1 / CPB (2 years) | 45 | 204 | 0 | 408 |
| Long-term remuneration components (3 years) / LTI (4 years) | 45 | 204 | 0 | 408 |
| Other (special arrangements) | 0 | 0 | 0 | 0 |
| **Total** | **135** | **612** | **0** | **1,224** |
| Pension expense | 21 | 96 | 96 | 96 |
| **Total remuneration** | **254** | **1,149** | **537** | **1,761** |

| | Josef Schelchshorn[3, 4] Chief Human Resources Officer | | | |
|---|---|---|---|---|
| € thousand | 2015 | 2016 | 2016 (Min) | 2016 (Max) |
| Fixed remuneration | 204 | 432 | 432 | 432 |
| Fringe benefits | 27 | 36 | 36 | 36 |
| **Total** | **231** | **468** | **468** | **468** |
| One-year variable remuneration (Performance component 2 / PPB) | 140 | 280 | 0 | 560 |
| Multi-year variable remuneration | | | | |
| Performance component 1 / CPB (2 years) | 140 | 280 | 0 | 560 |
| Long-term remuneration components (3 years) / LTI (4 years) | 140 | 280 | 0 | 560 |
| Other (special arrangements) | 180 | 360 | 1,200 | 0 |
| **Total** | **600** | **1,200** | **1,200** | **1,680** |
| Pension expense | 104 | 143 | 143 | 143 |
| **Total remuneration** | **936** | **1,811** | **1,811** | **2,291** |

[1] MAN Truck & Bus AG employment contract [2] Joined October 1, 2015 [3] VW AG employment contract [4] Joined July 1, 2015

**Table 2: Executive Board members' remuneration in 2016 (benefits received)**

| | **Joachim Drees**[1,2] Chief Executive Officer | | **Jan-Henrik Lafrentz**[1,2] Chief Financial Officer | | **Josef Schelchshorn**[3,4] Chief Human Resources Officer | |
|---|---|---|---|---|---|---|
| € thousand | **2015** | **2016** | **2015** | **2016** | **2015** | **2016** |
| Fixed remuneration | 102 | 450 | 90 | 408 | 204 | 432 |
| Fringe benefits | 23 | 88 | 8 | 33 | 27 | 36 |
| **Total** | **125** | **538** | **98** | **441** | **231** | **468** |
| One-year variable remuneration (Performance component 2 / PPB) | 28 | 338 | 25 | 306 | 255 | 406 |
| Multi-year variable remuneration | | | | | | |
| Performance component 1 / CPB (2 years) | 5 | 232 | 4 | 210 | 66 | 176 |
| Long-term remuneration components (3 years) / LTI (4 years) | 0 | 266 | 0 | 241 | 210 | 330 |
| Other (special arrangements) | 222 | 336 | 121 | 0 | 69 | 288 |
| **Total**[5] | **255** | **1,170** | **150**[6] | **757** | **600** | **1,200** |
| Pension expense | 20 | 210 | 21 | 96 | 104 | 143 |
| **Total remuneration** | **400** | **1,918** | **269** | **1,294** | **936** | **1,811** |

[1] MAN Truck & Bus AG employment contract [2] Joined October 1, 2015 [3] VW AG employment contract [4] Joined July 1, 2015
[5] 2016: Information based on key figures currently available [6] Adjustment following preparation of the 2015 Annual Report

Additionally, a total of €595 thousand (previous year: €614 thousand) in severance payments was made in fiscal 2016 to former members of the Executive Board. Appropriate provisions were recognized for these payments at the time of departure. These payments are also described in detail in the abovementioned note in the "Notes to the Consolidated Financial Statements."

## 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.

Since the amendment to the Articles of Association resolved at the Annual General Meeting on April 1, 2010, the members of the Supervisory Board have additionally received an attendance fee of €500 in each case for meetings of the Supervisory Board or of Supervisory Board committees at which they have been present.

In addition, members of the Supervisory Board are reimbursed 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 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 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 2016

The total remuneration payable to the members of the Supervisory Board for 2016 amounts to €751 thousand (previous year: €806 thousand). In addition, members of MAN SE's Supervisory Board received remuneration totaling €150 thousand (previous year: €124 thousand) for serving on supervisory boards at Group companies in fiscal 2016. 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 2016.

### 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, 2016, do not receive any remuneration.

# TAKEOVER-RELATED DISCLOSURES

## Disclosures in accordance with sections 289 (4) and 315 (4) of the *Handelsgesetzbuch* (HGB — German Commercial Code)

### Composition of share 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 Volkswagen Truck & Bus GmbH and MAN SE on April 26, 2013, which came into effect on 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 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 Volkswagen Truck & Bus GmbH and MAN SE, section 140 (2) of the AktG also applies 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

Volkswagen Truck & Bus GmbH 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 Volkswagen Truck & Bus GmbH 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 Volkswagen Truck & Bus GmbH on April 16, 2013. The relevant shares are now attributable to Volkswagen AG via Volkswagen Truck & Bus GmbH. 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

Volkswagen Truck & Bus GmbH'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 and out of court.

### Material agreements of the Company that are subject to a change of control following a takeover bid

As already described above in the "MAN Group funding" section, MAN SE has entered into various material agreements that are subject to a change of control.