2019
HALF-YEARLY FINANCIAL REPORT

JAN – JUN 2019

Engineering the Future – since 1758.

MAN SE

Contents

Introduction

MAN SE's half-yearly financial report meets the requirements set out in the applicable provisions of the *Wertpapierhandelsgesetz* (WpHG — German Securities Trading Act) and, in accordance with section 115 of the WpHG, comprises the condensed half-yearly consolidated financial statements, the interim management report of the Group, and a responsibility statement. The half-yearly consolidated financial statements have been prepared in accordance with IAS 34 and comply with the International Financial Reporting Standards (IFRSs) and related Interpretations issued by the International Accounting Standards Board (IASB) that were effective at the end of the reporting period and endorsed by the European Union (EU). The half-yearly financial report should be read in conjunction with the Annual Report for fiscal year 2018 and the additional information on the Company contained in it.

AT A GLANCE

Reporting period January 1 to June 30

€ million	2019	2018	Change in %
Order intake	**6,772**	**7,179**	**– 6%**
Germany	1,869	1,970	– 5%
Other countries	4,903	5,209	– 6%
Sales revenue	**6,283**	**5,814**	**8%**
Germany	1,652	1,526	8%
Other countries	4,630	4,288	8%
Headcount [1]	**38,594**	**38,430**	**0%**
			€ million
Operating profit	248	255	– 7
Operating return on sales (%)	4.0	4.4	– 0.4
Net cash used in operating activities	– 230	– 114	– 117
Net cash used in investing activities attributable to operating activities	1,634	– 219	1,853
of which investments in property, plant, and equipment	– 94	– 127	33
Net cash flow	1,384	– 181	1,566
Primary R&D costs	311	324	– 13
Net financial debt [1]	– 2,838	– 3,051	213

Any differences in this half-yearly financial report are due to rounding.

[1] As of June 30, 2019, vs. December 31, 2018

INTERIM MANAGEMENT REPORT AS OF JUNE 30, 2019

Results of operations, financial position, and net assets

Changes in financial reporting

Effective January 1, 2019, the new IFRS 16 financial reporting standard has made changes to the previous lease accounting rules with the core objective of recognizing all leases. Accordingly, lessees do not have to classify leases into finance and operating leases. Instead, they must generally recognize a right-of-use asset and a lease liability for all leases in their balance sheet. The recognized right-of-use assets are reported in the balance sheet items in which the assets underlying the lease would be presented if they were owned by the MAN Group. Using the modified retrospective method (adjustments to the opening balance), right-of-use assets were recognized as noncurrent assets for the first time as of January 1, 2019, and lease liabilities were recognized as financial liabilities. This resulted in an increase in total assets, with no change in equity. The new approach resulted in a slight increase in operating profit in 2019, since this item only contains depreciation of right-of-use assets since January 1, 2019. Interest expense relating to lease liabilities is recognized as a charge in the financial result.

The change in the way profit or loss items related to leases are presented under IFRS 16 is expected to result over the full year in a slightly positive effect on gross cash flow and subsequently on net cash flow (depreciation is a noncash expense). Repayment of the lease liability results in a corresponding negative impact on net cash provided by / used in financing activities. The initial recognition of lease liabilities as financial liabilities in the balance sheet resulted in a significant increase in total borrowings and, consequently, in a negative nonrecurring impact of €587 million on the presentation of net financial debt as of January 1, 2019. Prior-period amounts were not adjusted.

The MAN Group's results of operations

At €6,772 million (previous year: €7,179 million), the MAN Group's order intake in the first six months of 2019 was down 6% year-on-year.

The unit figure for the MAN Group's order intake declined by 4% to 71,704 (previous year: 75,040) vehicles. Order intake at MAN Truck & Bus decreased by 4,743 units or 8% year-on-year. MAN Latin America increased its order intake by 2,547 units (15%), driven largely by increasing domestic demand in Brazil.

The order backlog amounted to €3.9 billion as of June 30, 2019, up 2% compared with December 31, 2018 (€3.8 billion).

The MAN Group generated sales revenue of €6.3 billion in the first six months of fiscal 2019, 8% higher than in the previous year.

Unit sales in the MAN Group rose by 10% to 71,814 vehicles (previous year: 65,356 vehicles). MAN Truck & Bus's sales revenue rose by 6%. It sold 54,028 vehicles (previous year: 49,040 vehicles). MAN Latin America sold 20,384 vehicles, 18% more than in the previous year (17,335 vehicles). Sales revenue increased by 28%, lifted by positive price effects.

At €248 million, the MAN Group's operating profit in the first six months of 2019 was roughly on a level with the previous year (€255 million). Operating profit at MAN Truck & Bus declined compared with the previous year (€285 million) to €253 million. The positive effect of the rise in sales revenue was set against a difficult market environment for used vehicles and higher expenses resulting from, among other factors, higher depreciation charges caused by increased capital expenditure, as well as increased costs ahead of the rollout of the new truck and bus generations. MAN Latin America generated an operating profit of €18 million (previous year: €13 million). The operating profit reported by the holding company and parent of the MAN Group improved significantly compared with the previous year, due largely to royalty income from MAN Energy Solutions.

The MAN Group's operating return on sales in the first six months of 2019 was 4.0%, after 4.4% in the prior-year period. The MAN Group's profitability in the first half of 2019 was thus still far below the strategic target of 8%.

At €222 million, the financial result was significantly better than in the previous year (€199 million). This improvement was attributable largely to a special dividend of €123 million received from Scania AB, Södertälje, Sweden (Scania), and from the share of profits and losses of equity-method investments. A factor affecting the prior-period comparative figure was the reversal of an impairment loss on the investment in Sinotruk (Hong Kong) Ltd., Hong Kong, China (Sinotruk), in the amount of €145 million.

Overall, the MAN Group's profit before tax amounted to €470 million in the first six months (previous year: €455 million). The tax rate was 11% (previous year: 22%) and was positively affected in the first half of 2019 by tax-exempt income from equity-method investments, the Scania dividend, and effects of prior-period taxes. In the prior-year period, it was affected to a large extent by the reversal of the impairment loss on the investment in Sinotruk and effects of prior-period taxes.

The profit from discontinued operations in the first six months of 2019 was attributable largely to insurance claims of approximately €19 million, less taxes of approximately €6 million, from the settlement reached by MAN SE and D&O insurers in connection with the "Ferrostaal" compliance case. This item also contains a €2 million reduction in the purchase price paid to MAN SE by Volkswagen Vermögensverwaltungs-GmbH, Wolfsburg (formerly Volkswagen Klassik GmbH, Wolfsburg), from the sale of the Power Engineering business. The profit from discontinued operations in the prior-year period was a result of the sale of the Power Engineering business as of the end of December 31, 2018.

Profit after tax in the reporting period was €430 million, compared with €407 million in the previous year.

Please see "The Divisions in Detail" for further information on the results of operations.

The MAN Group's financial position

The statement of cash flows presents cash flows provided by / used in discontinued operations in separate line items for operating, investing, and financing activities.

MAN consolidated statement of cash flows (key figures)

Reporting period January 1 to June 30

€ million	2019	2018
Cash and cash equivalents at beginning of period	**1,150**	**782**
Gross cash flow	728	770
Change in working capital	– 977	– 732
Net cash used in operating activities - discontinued operations	19	– 152
Net cash used in operating activities	**– 230**	**– 114**
Net cash used in investing activities attributable to operating activities	1,634	– 219
Net cash flow [1]	**1,384**	**– 181**
Change in loans and time deposits	0	– 4
Net cash used in investing activities - discontinued operations	–	– 60
Net cash used in investing activities	**1,635**	**– 284**
Profit transfer/loss absorption	– 548	– 193
Repayment of lease liabilities	– 39	0
Change in other financial liabilities	– 952	460
Net cash provided by/used in financing activities - discontinued operations	–	0
Net cash provided by/used in financing activities	**– 1,539**	**268**
Effect of exchange rate changes on cash and cash equivalents	7	– 18
Change in cash and cash equivalents	**– 128**	**– 147**
Cash and cash equivalents at June 30	**1,022**	**635**
Composition of net liquidity/net financial debt at June 30, 2019, and December 31, 2018 [2]		
Cash and cash equivalents	1,022	1,150
Securities, loans, and time deposits	36	36
Gross liquidity	**1,058**	**1,185**
Total borrowings	– 3,896	– 4,236
Net financial debt	**– 2,838**	**– 3,051**

[1] Net cash flow does not include net cash provided by / used in discontinued operations.
[2] "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 only contains continuing operations and was down slightly year-on-year, at €728 million (previous year: €770 million). Positive effects here in the first six months of 2019 included the dividend of €185 million paid by Scania (previous year: €56 million) and the higher depreciation charges of €576 million (previous year: €480 million). These were offset in part by tax payments of €236 million. Tax refunds exceeded tax payments by €42 million in the first half of 2018.

Operating cash flow in the first half of 2019 was negatively impacted by the higher level of funds tied up in working capital, which amounted to €977 million (previous year: €732 million). The increase in working capital was attributable primarily to the €448 million rise in inventories (previous year: €403 million). This was offset only to a slight extent in the current reporting period by growth in liabilities of €12 million (previous year: €296 million). Factors impacting the change in liabilities included the €156 million increase in liabilities from the buyback business and, offsetting this, the €109 million decrease in trade payables (previous year: €76 million increase).

Within working capital, the €476 million increase in assets leased out (previous year: €495 million) was partly offset by the depreciation of assets leased out and by the abovementioned increase in liabilities from the buyback business in net cash used in operating activities.

Together with the net cash provided by / used in operating activities attributable to discontinued operations, this led to net cash used in operating activities of €230 million (previous year: €114 million) in the first half of 2019.

Net cash provided by / used in investing activities attributable to operating activities in the first six months of 2019 was impacted by the proceeds from the disposal of the Power Engineering business amounting to €1,978 million. On the expenditure side were current payments to acquire property, plant, and equipment, intangible assets, and capitalized development costs amounting to €224 million (previous year: €241 million), and a €123 million capital contribution to Scania.

Net cash flow of €1,384 million (previous year: €–181 million) contains the purchase price received from the sale of the Power Engineering business. Without this effect, net cash flow would have been down significantly on the first six months of 2018 because of the higher level of funds tied up in working capital, as already explained, and higher tax payments.

Net cash used in financing activities amounted to €1,539 million in the reporting period (previous year: net cash provided by financing activities of €268 million). This includes a €1.0 billion repayment of loan liabilities to Volkswagen AG, Wolfsburg (Volkswagen AG), and the profit transfer for 2018 to TRATON SE, Munich (TRATON SE), amounting to €548 million (previous year: €193 million). No dividend was distributed. Instead, TRATON SE made the contractually defined cash compensation payment (€5.10) to each MAN SE free float shareholder.

The MAN Group's net financial debt as of June 30, 2019, was €2,838 million. This represents an improvement of €213 million compared with December 31, 2018.

The MAN Group's net assets

The introduction of the new IFRS 16 resulted in a number of changes in the balance sheet structure. These are explained in detail in the "Accounting policies" chapter of the condensed half-yearly consolidated financial statements.

The MAN Group's total assets amounted to €19,204 million at the end of the reporting period, 3% lower than on December 31, 2018 (€19,751 million).

Overall, noncurrent assets rose by 9% in the period under review. The main factor here was the €520 million increase in property, plant, and equipment, resulting primarily from the initial recognition of right-of-use assets due to the application of IFRS 16. In addition, other equity investments rose by €311 million due to the higher carrying amount of the investment in Scania (€187 million) and a capital contribution to Scania (€123 million).

Current assets were down 22% on the figure as of the end of 2018. This is attributable in particular to the settlement of the purchase price receivable for the Power Engineering business sold as of the end of December 31, 2018 (€1,978 million), which was reported in other current financial assets. On the other hand, inventories increased by €465 million in the first half of the fiscal year. Cash and cash equivalents amounted to €1,022 million as of the reporting date (previous year: €1,150 million). The cash inflow from the settlement of the purchase price receivable was offset by outflows from the repayment of loans to Volkswagen AG, among other factors.

The MAN Group's total equity increased from €5,685 million as of December 31, 2018, to €6,283 million as of June 30, 2019. This is due largely to the increase in profit after tax and the higher carrying amount of the investment in Scania. Actuarial losses from the measurement of pension obligations due to lower interest rates were an offsetting factor. The equity ratio was 32.7% (previous year: 28.8%).

Noncurrent liabilities and provisions declined by 6% compared with December 31, 2018. Noncurrent financial liabilities in particular decreased by €540 million.

Current liabilities and provisions were 9% lower compared with December 31, 2018. This is due primarily to the payment of the liability from the profit transfer to TRATON SE for 2018, which was reported in other current financial liabilities.

In addition to the assets recognized in the consolidated balance sheet, the Group also uses assets that are not eligible for recognition, such as the MAN brand, internally developed patents, and employee expertise. There were also unrecognized contingent liabilities, buyback guarantees, and other financial obligations as of June 30, 2019.

€ million	06/30/2019	12/31/2018
Noncurrent assets	13,498	12,442
Current assets	5,706	7,310
Total assets	**19,204**	**19,751**
Equity	6,283	5,685
Noncurrent liabilities and provisions	5,095	5,444
Current liabilities and provisions	7,826	8,622

Report on expected developments

The MAN Group's sales revenue will probably increase slightly year-on-year in 2019. Based on a revised estimate, we believe that unit sales by MAN Truck & Bus will grow slightly and that sales revenue will increase moderately. Unit sales and sales revenue will probably record a tangible increase at MAN Latin America. The operating profit and operating return on sales of the MAN Group will improve noticeably in 2019 compared with the previous year. Operating profit will improve tangibly at MAN Truck & Bus because the previous year's figure was negatively impacted by the expenses in connection with the restructuring of the activities in India. A slight volume-driven increase in operating profit is expected at MAN Latin America. We continue to base our forecasts for 2019 on the significant assumptions and overall conditions described in our 2018 Annual Report.

Report on risks and opportunities

The report on risks and opportunities should be read in conjunction with our disclosures in the 2018 consolidated financial statements. The MAN Group's risk position has not changed significantly as against the assessment contained in that report. For information regarding "Litigation / legal proceedings," please see the notes to the condensed half-yearly consolidated financial statements. With respect to current developments in connection with the economic situation and their effects on MAN's order situation, in particular, as well as on its sales revenue and earnings, please see the sections entitled "The MAN Group's results of operations" and "Report on expected developments," along with the information provided on the individual segments in "The Divisions in Detail."

The Divisions in Detail

MAN Truck & Bus

Reporting period January 1 to June 30

€ million	2019	2018	Change in %
Order intake	6,158	6,604	– 7
Sales revenue	5,523	5,194	6
Vehicle sales (units) [1]	54,028	49,040	10
			€ million
Operating profit	253	285	– 33
Operating return on sales (%)	4.6	5.5	-

[1] Incl. MAN TGE vans (first half of 2019: 7,266 units, first half of 2018: 3,178 units)

The European truck market was up sharply on the prior-year level in the first six months of the current fiscal year. The European bus market was also up on the prior-year level.

MAN Truck & Bus's total vehicle sales performance was very positive in the first half of 2019, at 54,028 vehicles (previous year: 49,040 vehicles). Truck sales amounted to 50,890 units (previous year: 45,783 units), up 11% on the previous year; the increase was primarily attributable to growth in Germany, Brazil, and the UK. By contrast, there was a noticeable decline in sales in the Middle East region. In India, the main sales activities were discontinued in the course of the previous year. In total, MAN Truck & Bus further stabilized its leading position in the European market for trucks over 6 t in the first half of 2019.

3,138 buses were sold in the first six months of 2019 (previous year: 3,257 buses), corresponding to a year-on-year decline of 4%. Among other factors, this was attributable to lower volumes in Singapore, South Africa, and Tunisia. In the European bus market, by contrast, MAN Truck & Bus increased its market share further.

Order intake in the first half of 2019 was 54,878 vehicles, 8% down on the same period of 2018 (59,621 vehicles). Order intake for trucks was 7% lower than in the first half of 2018, at 51,345 units (previous year: 55,201 units). This decrease was driven mainly by negative trends in Germany, Poland, Russia, India, and Turkey. In the first half of 2019, MAN Truck & Bus received orders for 7,729 MAN TGE vans (previous year: 4,641 vans). The order intake for buses was also lower, amounting to 3,533 units (previous year: 4,420 units), especially because of a decline in orders in Saudi Arabia, Singapore, and Israel.

MAN Truck & Bus generated sales revenue of €5,523 million, a year-on-year increase of 6% (previous year: €5,194 million). This growth was driven by both the New Vehicles and the After- Sales business.

At €253 million, operating profit in the first half of 2019 was down on the previous year (€285 million). This corresponds to an operating return on sales of 4.6% (previous year: 5.5%). The positive effect of the rise in sales revenue was offset by a difficult market environment for used vehicles and higher expenses resulting from, among other factors, higher depreciation charges caused by increased capital expenditure, as well as increased costs ahead of the rollout of the new truck and bus generations. The prior-year period contained an earnings effect of € 19 million resulting from the transfer of the RIO brand to a TRATON GROUP company. In order to grow profitably in the future, MAN Truck & Bus will continue to concentrate on measures to optimize processes and the cost structure. The focus on continuous improvement and operational excellence is creating the basis for this.

MAN Latin America

Reporting period January 1 to June 30

€ million	2019	2018	Change in %
Order intake	708	650	9
Sales revenue	860	674	28
Vehicle sales (units)	20,384	17,335	18
			€ million
Operating profit	18	13	5
Operating return on sales (%)	2.1	2.0	-

MAN Latin America sold a total of 20,384 trucks and buses in the first half of 2019, 18% more than in the prior-year period (17,335 vehicles). This increase is attributable to the economic recovery in Brazil. By contrast, export sales declined due in particular to a decline in demand in other relevant markets in South America.

Truck sales increased by 20% to 16,681 (previous year: 13,870) vehicles. MAN Latin America thus defended a prominent position in the Brazilian truck market, among others, with said market recording growth in the heavy-duty segment (over 16 tons), in particular. Bus sales rose by 7% to 3,703 units (previous year: 3,465 units). MAN Latin America continues to maintain its number two position in the Brazilian bus market. The market growth is attributable to a government school bus program, among other factors.

MAN Latin America sold 2,677 vehicles outside Brazil (previous year: 5,389), securing its position as one of Brazil's leading exporters with 23.3% (previous year: 20.8%) of the country's vehicle exports. The decrease in export sales was mainly the result of weaker demand from Argentina, Mexico, Chile, and some African countries.

The order intake rose 15% to 19,362 vehicles, from 16,815 vehicles in the first half of 2018. Truck orders, which amounted to 15,654 units, were 18% higher than in the prior-year period (13,292 units). Strong growth in Brazil more than offset declines in Argentina and other South American countries. The order intake for buses also increased, by 5%, to 3,708 units (previous year: 3,523 units). Here, too, a higher number of orders in Brazil offset a decline in orders from export countries.

MAN Latin America's sales revenue expanded by 28%, from €674 million to €860 million. This increase reflects the higher sales, accompanied by solid market positioning, despite the depreciation of Brazilian currency.

Operating profit rose to €18 million in the first half of 2019 (previous year: €13 million). This figure includes the reversal of a restructuring provision in the amount of €13 million. The increase in sales revenue was offset by foreign exchange effects and inflation-related cost increases, e.g., for materials, and higher depreciation charges. Operating return on sales was 2.1% (previous year: 2.0%). MAN Latin America continues to focus its efforts on an extensive program to strengthen the company in a competitive market environment with the aim of systematically improving its earnings quality.

Events after the reporting period

See the notes to the condensed half-yearly consolidated financial statements for events after the reporting period.

CONDENSED HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2019

MAN consolidated income statement

Reporting period January 1 to June 30

€ million	2019	2018
Sales revenue	6,283	5,814
Cost of sales	– 5,073	– 4,660
Gross profit	**1,209**	**1,155**
Other operating income	124	146
Distribution expenses	– 636	– 579
General and administrative expenses	– 329	– 331
Net impairment losses on financial assets	1	– 3
Other operating expenses	– 122	– 133
Operating profit	**248**	**255**
Share of profits and losses of equity-method investments	87	57
Interest income	19	17
Interest cost	– 69	– 67
Other financial result	185	192
Financial result	**222**	**199**
Profit before tax	**470**	**455**
Income taxes	– 52	– 101
Income from discontinued operations, net of tax	11	53
Profit/loss after tax	**430**	**407**
of which attributable to noncontrolling interests	– 1	3
of which attributable to shareholders of MAN SE	430	404
Earnings per share from continuing operations in € (diluted/basic)	**2.85**	**2.41**
Earnings per share from continuing and discontinued operations in € (diluted/basic)	**2.93**	**2.75**

MAN consolidated reconciliation of comprehensive income for the period

Reporting period January 1 to June 30

€ million	2019	2018
Profit/loss after tax	**430**	**407**
Items that will not be reclassified to profit or loss		
Pension plan remeasurements	– 93	– 5
Other comprehensive income for the period from equity-method investments	0	0
Other comprehensive income for the period from the fair value measurement of other equity investments (equity instruments)	187	– 44
Deferred taxes	33	1
Items that will be reclassified subsequently to profit or loss		
Currency translation differences	23	– 84
Change in fair values of derivatives (hedging instruments)	8	– 38
Costs of hedging measures	3	– 1
Other comprehensive income for the period from equity-method investments	11	2
Deferred taxes	– 4	13
Other comprehensive income	**168**	**– 156**
Total comprehensive income	**598**	**251**
of which attributable to noncontrolling interests	– 1	3
of which attributable to shareholders of MAN SE	**598**	**248**

MAN consolidated balance sheet as of June 30, 2019

Assets

€ million	06/30/2019	12/31/2018
Intangible assets	2,050	1,970
Property, plant, and equipment	2,573	2,053
Assets leased out	4,006	3,847
Equity-method investments	786	738
Other equity investments	3,129	2,818
Noncurrent income tax receivables	23	27
Deferred tax assets	331	451
Other noncurrent financial assets	45	37
Other noncurrent receivables	554	500
Noncurrent assets	**13,498**	**12,442**
Inventories	2,771	2,305
Trade receivables	1,412	1,447
Current income tax receivables	46	38
Other current financial assets	186	2,173
Other current receivables	270	197
Cash and cash equivalents	1,022	1,150
Current assets	**5,706**	**7,310**
	19,204	**19,751**

MAN consolidated balance sheet as of June 30, 2019

Equity and Liabilities

€ million	06/30/2019	12/31/2018
Subscribed capital	376	376
Capital reserves	795	795
Retained earnings	4,290	3,864
Accumulated other comprehensive income	822	649
Equity attributable to shareholders of MAN SE	**6,283**	**5,685**
Noncontrolling interests	0	0
Total equity	**6,283**	**5,685**
Noncurrent financial liabilities	718	1,258
Pensions and other post-employment benefits	561	488
Noncurrent income tax payables	1	–
Deferred tax liabilities	137	190
Noncurrent income tax provisions	15	15
Other noncurrent provisions	581	561
Other noncurrent financial liabilities	1,918	1,829
Other noncurrent liabilities	1,165	1,103
Noncurrent liabilities and provisions	**5,095**	**5,444**
Current financial liabilities	3,177	2,978
Trade payables	1,333	1,437
Current income tax payables	22	181
Current income tax provisions	22	137
Other current provisions	540	589
Other current financial liabilities	1,135	1,700
Other current liabilities	1,596	1,600
Current liabilities and provisions	**7,826**	**8,622**
	19,204	**19,751**

MAN consolidated statement of cash flows

Reporting period January 1 to June 30

€ million	2019	2018
Cash and cash equivalents at beginning of period	**1,150**	**782**
Profit before tax	470	455
Income taxes refunded/paid	– 236	42
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property[1]	181	127
Amortization of, and impairment losses on, capitalized development costs[1]	59	47
Impairment losses on equity investments	0	0
Depreciation of leased products[1]	336	305
Change in pension provisions	– 20	3
Loss on disposal of noncurrent assets and equity investments	– 1	– 2
Share of profits and losses of equity-method investments	– 87	– 202
Other noncash income	26	– 5
Change in inventories	– 448	– 403
Change in receivables	– 32	– 130
Change in liabilities (excluding financial liabilities)	12	296
Change in provisions	– 33	0
Change in leased products	– 476	– 495
Net cash used in operating activities - discontinued operations	19	– 152
Net cash used in operating activities	**– 230**	**– 114**
Payments to acquire property, plant, and equipment and intangible assets (excluding capitalized development costs)	– 94	– 127
Additions to capitalized development costs	– 130	– 114
Payments to acquire other investees	0	0
Proceeds from the disposal of subsidiaries	1,978	–
Capital increase at other investees	– 123	–
Proceeds from asset disposals (other than leased products)	4	21
Change in loans and time deposits	0	– 4
Net cash used in investing activities - discontinued operations	–	– 60
Net cash used in investing activities	**1,635**	**– 284**
Profit transfer/loss absorption	– 548	– 193
Repayment of lease liabilities	– 39	0
Change in other financial liabilities	– 952	460
Net cash provided by/used in financing activities - discontinued operations	–	0
Net cash provided by/used in financing activities	**– 1,539**	**268**
Effect of exchange rate changes on cash and cash equivalents	7	– 18
Change in cash and cash equivalents	**– 128**	**– 147**
Cash and cash equivalents at June 30	**1,022**	**635**

[1] Net of impairment reversals

MAN consolidated statement of changes in equity

€ million	Subscribed capital	Capital reserves	Retained earnings	Accumulated other comprehen-sive income	Equity attributable to shareholders of MAN SE	Noncontrol-ling interests	Total
Adjusted balance at January 1, 2019	**376**	**795**	**3,864**	**649**	**5,685**	**0**	**5,685**
Profit/loss after tax	–	–	430	–	430	– 1	430
Other comprehensive income	–	–	–	168	168	0	168
Total comprehensive income	–	–	430	168	598	– 1	598
Other changes	–	–	– 5	5	0	–	0
Balance at June 30, 2019	**376**	**795**	**4,290**	**822**	**6,283**	**0**	**6,283**
Balance at December 31, 2017	**376**	**795**	**3,904**	**945**	**6,020**	**104**	**6,125**
Changes in accounting policy due to IFRS 9 and IFRS 15	–	–	– 10	2	– 8	1	– 7
Adjusted balance at January 1, 2018	**376**	**795**	**3,894**	**948**	**6,013**	**105**	**6,118**
Profit after tax	–	–	404	–	404	3	407
Other comprehensive income	–	–	–	– 156	– 156	0	– 156
Total comprehensive income	–	–	404	– 156	248	3	251
Dividends allocated to noncontrolling interests	–	–	–	–	–	– 3	– 3
Other changes [1]	–	–	– 111	0	– 111	0	– 111
Balance at June 30, 2018	**376**	**795**	**4,187**	**791**	**6,149**	**105**	**6,254**

[1] Retained earnings include the share of profit / loss attributable to TRATON SE in the event of profit / loss transfer based on profit / loss under German GAAP.

NOTES TO THE CONDENSED HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS

Basis of presentation

In accordance with Regulation No. 1606 / 2002 of the European Parliament and of the Council, MAN SE, Munich, prepared its consolidated financial statements for 2018 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. The accompanying condensed half-yearly consolidated financial statements (half-yearly consolidated financial statements) as of June 30, 2019, were prepared in accordance with IAS 34, do not contain all the information and disclosures required by IFRSs for full-year consolidated financial statements, and should be read in conjunction with the Company's published IFRS consolidated financial statements for fiscal year 2018. Unless expressly indicated otherwise, the accounting policies applied to these half-yearly consolidated financial statements are identical to those adopted for the most recent full-year consolidated financial statements. A detailed description of these accounting policies is given in the notes to the consolidated financial statements for the year ended December 31, 2018. All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

From the Executive Board's perspective, the accompanying unaudited half-yearly consolidated financial statements reflect all standard intraperiod adjustments required for the presentation of a true and fair view of the Group's net assets, financial position, and results of operations. The results presented for the first six months of fiscal 2019 are not necessarily indicative of future results.

Preparation of the half-yearly consolidated financial statements requires the Executive Board to make certain assumptions and estimates affecting the measurement and presentation of assets and liabilities, and income and expenses for the period. Actual amounts may differ from these estimates. In addition to the amounts contained in the primary financial statements, the half-yearly consolidated financial statements contain explanatory notes on selected financial statement line items.

Basis of consolidation

The half-yearly consolidated financial statements as of June 30, 2019, comprise 55 companies (December 31, 2018: 56 companies), including 14 (14) in Germany and 41 (42) outside Germany. The effects of the changes in the basis of consolidation on the half-yearly consolidated financial statements were immaterial.

Accounting policies

MAN has applied all accounting pronouncements adopted by the EU and required to be applied for periods beginning on or after January 1, 2019.

IFRS 16 — Leases

IFRS 16 revises the accounting for leases and supersedes the existing IAS 17 and related interpretations.

The main aim of IFRS 16 is to recognize all leases. Accordingly, lessees no longer have to classify leases into finance and operating leases. Instead, they must recognize a right-of-use asset and a lease liability for all leases in their balance sheet. In the MAN Group, the lease liability is measured at the present value of the lease payments discounted using the lessee's incremental borrowing rate, whereas the right-of-use asset is generally measured at the amount of the lease liability plus any initial direct costs incurred. The right-of-use asset must be amortized over the lease term and the lease liability adjusted using the effective interest method, taking into account the lease payments. Under IFRS 16, there are recognition exemptions for short-term and low-value leases that the MAN Group exercises and hence does not recognize any right-of-use assets or liabilities for such leases. The related lease payments continue to be recognized as expenses in the income statement. At the date of initial application, leases whose term ends before January 1, 2020, are classified as short-term leases regardless of the inception date of the lease.

Lessor accounting largely corresponds to the previous provisions of IAS 17. Lessors must continue to classify leases into finance and operating leases based on the risks and rewards of the asset in the future.

Effective January 1, 2019, the MAN Group accounts for leases under IFRS 16 using the modified retrospective approach for the first time. Prior-period amounts were not adjusted. Under this method, the lease liability is measured at the present value of the outstanding lease payments at the transition date. Present value is calculated on the basis of the lessee's incremental borrowing rates as of January 1, 2019. The weighted average interest rate applied in the MAN Group was 3.4%.

As a practical expedient, right-of-use assets are measured at the amount of the related lease liability, adjusted for any prepaid or accrued lease payments. In addition, existing contracts were not reassessed at the date of initial application whether they contain a lease based on the IFRS 16 criteria. Instead, contracts that were already classified as leases under IAS 17 or IFRIC 4 continue to be classified as leases. Contracts that were not classified as leases under IAS 17 or IFRIC 4 are also not classified as leases under IFRS 16.

The recognized right-of-use assets are reported in the balance sheet items in which the assets underlying the lease would be presented if they were owned by the MAN Group. The right-of-use assets are therefore presented in property, plant, and equipment in noncurrent assets at the reporting date.

The effects of the initial recognition of right-of-use assets and lease liabilities as of January 1, 2019, are described in the following:

The opening balance of right-of-use assets amounts to €572 million. This amount is reduced by right-of-use assets that were transferred to third parties under subleases in cases in which the sublease was classified as a finance lease. Such subleases resulted in finance lease receivables of €15 million.

Starting on January 1, 2019, all assets leased out must be presented separately from assets used by the MAN Group itself. Assets with a total carrying amount of €10 million were therefore reclassified from property, plant, and equipment to assets leased out. Assets leased out contain products leased out and investment property.

Lease liabilities of €588 million were recognized and reported in noncurrent and current financial liabilities.

Initial application of IFRS 16 had no effect on equity.

The difference between the payments for operating leases discounted using the lessee's incremental borrowing rate as of December 31, 2018 amounting to €635 million, and the opening balance of lease liabilities amounting to €588 million results primarily from the reassessment of lease terms under IFRS 16. Reasonably certain extension of termination options were taken into account when determining the lease payments. In addition, lease payments for low-value and short-term leases are not included in the opening balance of lease liabilities.

In contrast to the previous accounting policy, under which expenses for operating leases were reported in full in operating profit, only depreciation and impairment losses relating to right-of-use assets are allocated to operating profit under IFRS 16. Interest expenses from unwinding discounted lease liabilities are reported in the financial result. In the first six months of 2019, this increased operating profit by €15 million.

The change in the recognition of operating lease expenses in the statement of cash flows resulted in a €39 million improvement in cash flow provided by / used in operating activities and net cash flow in the first half of 2019. Net cash provided by / used in financing activities decreased accordingly. The increase in financial liabilities resulting from the change in accounting policies negatively impacted the MAN Group's net financial debt as of June 30, 2019, by €585 million.

It also results in significantly more extensive disclosures.

Other accounting policies

As a general principle, the income tax expense / income presented in the half-yearly consolidated financial statements has been determined on the basis of the expected full-year income tax rate.

A discount rate of 1.0% (December 31, 2018: 1.7%) was applied to pension provisions in Germany in the accompanying half-yearly consolidated financial statements.

In all other respects, the same accounting policies and consolidation principles were generally applied to the preparation of the half-yearly consolidated financial statements and the presentation of the prior-year comparative figures as to the 2018 consolidated financial statements. A detailed description of these accounting policies is given in the notes to the 2018 consolidated financial statements. Certain prior-period information was adapted to reflect the current presentation to improve comparability. In addition, the effects of the new standards are described in more detail under the disclosures on "New or amended IFRSs not applied." The 2017 Improvements to International Financial Reporting Standards and the amendments to IAS 19: Employee Benefits (Plan Amendment, Curtailment or Settlement) and to IAS 28: Investments in Associates and Joint Ventures (Long-term Interests in Associates and Joint Ventures) were endorsed for use in the EU in the first half of 2019. Application of these amendments did not materially affect the MAN Group's half-yearly consolidated financial statements.

Discontinued operations

Power Engineering

On October 25, 2018, the Volkswagen Group announced its intention to sell the Power Engineering business to a subsidiary of Volkswagen AG outside the MAN Group for a cash payment. The purchase price was based on the carrying amounts of the Power Engineering business.

The Power Engineering business comprises the two former reportable segments of MAN Energy Solutions (formerly MAN Diesel & Turbo) and Renk, as well as HABAMO Verwaltung GmbH & Co. Objekt Sterkrade KG.

MAN Energy Solutions is a leading global manufacturer of marine diesel engines and stationary engines, and one of the leading turbomachinery providers. Renk is a renowned manufacturer of high-quality special gear units, propulsion components, and testing systems. Control of the Power Engineering business passed to the purchaser when the transaction closed as of December 31, 2018.

The purchase price was €1,978 million and was settled in 2019. The payment is presented under "Proceeds from the disposal of subsidiaries" in net cash provided by / used in investing activities.

The prior-period amounts in the consolidated income statement and the consolidated statement of cash flows were adjusted in order to present the profit / loss from discontinued operations and the net cash provided by / used in discontinued operations, respectively, as separate line items in compliance with IFRS 5.

Ferrostaal

MAN SE's annual reports for fiscal years 2009 through 2018 contain detailed information in connection with the disposal of the shares in Ferrostaal GmbH, Essen, Germany (Ferrostaal), formerly Ferrostaal AG.

The net profit generated by Ferrostaal, which is reported under "Profit from discontinued operations, net of tax" (previous year: €0 million) in the first six months of fiscal year 2019, is presented in the following:

Reporting period January 1 to June 30

€ million	**2019**
Income and expenses	19
Income tax	– 6
	13

It is the result of insurance payments of approximately €19 million (previous year: €0 million), less taxes of approximately €6 million (previous year: €0 million), from the settlement reached by MAN SE and D&O insurers in connection with the "Ferrostaal" compliance case, and is included in the amount of €19 million (previous year: €0 million) in net cash provided by / used in operating activities – discontinued operations.

Income statement disclosures

Sales revenue

Reporting period January 1 to June 30, 2019

€ million	MAN Truck & Bus	MAN Latin America	Others	Group
Vehicles	3,393	808	– 91	4,111
Genuine parts in the commercial vehicles business	742	45	– 9	778
Used vehicles	347	1	–	348
Engines, powertrains	217	–	– 2	215
Workshop services	323	3	0	326
Buyback and leasing business	453	–	–	453
Other sales revenue	47	3	1	51
	5,523	**860**	**– 101**	**6,283**

Reporting period January 1 to June 30, 2018

€ million	MAN Truck & Bus	MAN Latin America	Others	Group
Vehicles	3,137	602	– 39	3,701
Genuine parts in the commercial vehicles business	732	44	– 13	764
Used vehicles	344	7	–	351
Engines, powertrains	201	–	– 1	200
Workshop services	305	4	0	308
Buyback and leasing business	422	–	–	422
Other sales revenue	52	17	0	69
	5,194	**674**	**– 53**	**5,814**

Sales revenue for the first six months of 2019 includes revenue from operating leases of €448 million (previous year: €418 million).

Net interest expense

Reporting period January 1 to June 30

€ million	2019	2018
Interest and similar income	19	17
Interest and similar expenses	– 47	– 60
Interest expense for lease liabilities	– 15	–
Net interest on the net liability for pensions and other post-employment benefits	– 5	– 4
Unwinding of discount and effect of change in discount rate on liabilities and other provisions	– 1	– 3
Net interest expense	**– 49**	**– 50**

Net interest expense mainly contains interest expense for financial liabilities. In the first six months of 2019, it also includes interest expense for lease liabilities.

Other financial result

Reporting period January 1 to June 30

€ million	2019	2018
Other income from equity investments	185	203
Realized income and expense of loan receivables and payables in foreign currency	– 12	0
Gains/losses from remeasurement of financial instruments	19	– 40
Gains/losses from changes in the fair value of derivatives not included in hedge accounting	– 7	30
Other financial result	**185**	**192**

€185 million (previous year: €56 million) of other income from equity investments is attributable to dividend income from the investment in Scania. In the prior-year period, the reversal of an impairment loss on the investment in Sinotruk in the amount of €145 million was additionally reported in this item.

Gains and losses from remeasurement of financial instruments result from the currency translation of receivables and liabilities contained in net financial debt. Fair value changes of derivatives not included in hedge accounting largely offset the currency translation effects on net financial debt.

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Balance sheet disclosures

Equity-method investments

Since 2009, MAN SE's Commercial Vehicles business area has held a strategic interest of 25% plus one share in Sinotruk, one of China's largest truck manufacturers. The investment enables MAN to operate in the local market.

In previous years, MAN recognized an impairment loss of €190 million on the investment in Sinotruk because the recoverable amount was lower than the carrying amount due to negative cash flow forecasts and declining business performance. This impairment loss was reversed as of June 30, 2018, as this investee's business recovered. The reversal of the impairment loss on the carrying amount is limited to the amount that would have resulted if the purchase price allocation effects had been adjusted in subsequent periods without the impairment loss. It amounts to €145 million and is recognized in the other financial result.

The quoted market value of the shares in Sinotruk amounted to €1,050 million as of June 30, 2019 (previous year: €908 million), based on the equity interest held by MAN.

Summarized financial information for Sinotruk (on a 100% basis and thus not adjusted for the equity interest held by MAN) is presented in the following tables:

Balance sheet

€ million	2019 [1]	2018 [2]
Noncurrent assets	2,205	2,239
Current assets	5,625	6,461
Total assets	**7,830**	**8,700**
Noncurrent liabilities and provisions	47	54
Current liabilities and provisions	4,187	5,250
Total liabilities and provisions	**4,234**	**5,304**
Net assets	**3,596**	**3,395**

[1] Amounts shown relate to the reporting period ended December 31, 2018.
[2] Amounts shown relate to the reporting period ended June 30, 2018.

Statement of comprehensive income

€ million	2019 [1]	2018 [2]
Sales revenue	3,563	3,691
Profit after tax from continuing operations	274	226
Other comprehensive income	0	1
Total comprehensive income	**274**	**227**
Dividends received	–	–

[1] Amounts shown relate to the reporting period from July 1, 2018, through December 31, 2018.
[2] Amounts shown relate to the reporting period from July 1, 2017, through December 31, 2017.

The following table shows the reconciliation of the financial information to the equity-method carrying amount of the investment in Sinotruk:

€ million	2019	2018
Net assets	3,596	3,395
Noncontrolling interests	362	347
Net assets attributable to shareholders	3,234	3,048
Interest held by MAN in % [1]	25	25
Net assets attributable to the MAN Group	**809**	**762**
Impairment losses	–	–
Dividend receivable 2018	– 50	–
Goodwill, effect of purchase price allocation, currency translation differences, and other changes	– 38	– 64
Carrying amount at June 30 / at December 31	**721**	**698**

[1] 25% plus one share

Inventories

€ million	06/30/2019	12/31/2018
Raw materials, consumables, and supplies	319	277
Work in progress	372	302
Finished goods and purchased merchandise	2,061	1,713
Prepayments	18	13
	2,771	**2,305**

Other financial assets

€ million	06/30/2019	12/31/2018
Positive fair value of derivatives	49	64
Receivables from loans	44	45
Finance lease receivables	13	–
Other financial assets	124	2,102
	231	**2,210**

As of December 31, 2018, miscellaneous financial assets contained €1,980 million of consideration receivable from a subsidiary of Volkswagen AG outside the MAN Group relating to the disposal of the Power Engineering business. It was settled on June 30, 2019.

Other financial assets are reported as follows:

€ million	06/30/2019	12/31/2018
Other noncurrent financial assets	45	37
Other current financial assets	186	2,173

Financial liabilities

€ million	06/30/2019	12/31/2018
Liabilities to banks	871	918
Liabilities to Volkswagen AG	1,000	2,000
Cash pool liabilities	1,216	1,110
Finance lease liabilities	585	0
Loans and other liabilities	224	208
	3,896	**4,236**

Financial liabilities are reported in the following balance sheet items:

€ million	06/30/2019	12/31/2018
Noncurrent financial liabilities	718	1,258
Current financial liabilities	3,177	2,978

The credit facility extended by Volkswagen AG was unchanged and was drawn down in the amount of €1,000 million as of the June 30, 2019, reporting date (December 31, 2018: €2,000 million).

The €585 million increase in lease liabilities is attributable to the initial application of IFRS 16. Further information can be found in the accounting policies.

Other provisions

€ million	06/30/2019	12/31/2018
Warranties	567	582
Outstanding costs	157	150
Obligations to employees	134	135
Litigation and legal risks	41	82
Restructurings	11	29
Miscellaneous provisions	211	172
	1,121	**1,150**

The provisions for restructurings relate to the restructuring measures MAN Truck & Bus initiated in the previous years. The provisions for restructurings amounting to €13 million were reversed at MAN Latin America as of the June 30, 2019, reporting date. Miscellaneous provisions include provisions for, among other things, expected losses from onerous contracts as well as a wide range of identifiable specific risks, price risks, and uncertain obligations.

Other provisions are reported in the following balance sheet items:

€ million	06/30/2019	12/31/2018
Other noncurrent provisions	581	561
Other current provisions	540	589

Other financial liabilities

Other financial liabilities decreased mainly because of the transfer of the profit for 2018 calculated in accordance with German GAAP to TRATON SE.

Other liabilities

€ million	06/30/2019	12/31/2018
Deferred purchase price payments for products leased out	1,837	1,751
Payroll liabilities	271	269
Miscellaneous other tax payables	218	227
Contract liabilities	376	411
Liabilities related to social security contributions	17	14
Miscellaneous other liabilities	42	31
	2,760	**2,703**

Other liabilities are reported in the following balance sheet items:

€ million	06/30/2019	12/31/2018
Other noncurrent liabilities	1,165	1,103
Other current liabilities	1,596	1,600

Contingent liabilities and commitments

€ million	06/30/2019	12/31/2018
Liabilities under buyback guarantees	2,357	2,146
Contingent liabilities under guarantees	137	178
Other contingent liabilities	1,051	928
	3,545	**3,252**

Customer liabilities to financial services companies of the Volkswagen Group and, to a small extent, third parties are covered by standard industry buyback guarantees under which MAN Truck & Bus is obliged to buy back vehicles from the financial services company in the event of default. The maximum expenses under buyback guarantees totaled €2,357 million as of June 30, 2019 (previous year: €2,146 million), including €2,349 million (previous year: €2,139 million) to financial services companies of the Volkswagen Group. However, based on experience, the majority of these guarantees expire without being drawn upon.

Other contingent liabilities relate mainly to contingent liabilities for potential charges from tax risks and legal disputes, which exist for MAN Latin America, in particular. See note “Litigation / legal proceedings” for further information.

Litigation / legal proceedings

MAN SE's Annual Report for fiscal year 2018 contains detailed information on litigation and legal proceedings.

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

The Brazilian tax authorities initiated tax proceedings against MAN Latin America with regard to the assessment of the tax effects of the acquisition structure chosen in 2009 for MAN Latin America. In December 2017, an administrative court ruled against MAN Latin America following an appeal. MAN Latin America took legal action against this ruling by recourse to regular courts in 2018. Because of the potential range of punitive surcharges plus interest that may be applied under Brazilian law, the best estimate of the risk in the event that the tax authorities are successful in asserting their position entails a degree of uncertainty. Nevertheless, a positive outcome is still expected for MAN Latin America. The potential risk in the event of a negative outcome is currently approximately €697 million for the contested period starting in 2009, which was disclosed in "Contingent liabilities and commitments."

Fair value disclosures

The following table shows the reconciliation of the balance sheet items to the relevant classes of financial instruments.

	Measured at fair value						
	Recognized in other comprehensive income	Through profit or loss	Measured at amortized cost		Derivatives included in hedging relationships	Not allocated to any IFRS 9 measure-ment category	Balance sheet item at 06/30/2019
€ million	Carrying amount	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets							
Equity-method investments	–	–	–	–	–	786	786
Other equity investments	3,118	–	–	–	–	11	3,129
Other financial assets	–	3	39	39	3	–	45
Current assets							
Trade receivables	–	–	1,412	1,412	–	–	1,412
Other financial assets	–	35	143	143	8	–	186
Cash and cash equivalents	–	–	1,022	1,022	–	–	1,022
Noncurrent liabilities							
Financial liabilities	–	–	718	718	–	–	718
Other financial liabilities	–	4	1,912	1,912	2	–	1,918
Current liabilities							
Financial liabilities	–	–	3,177	3,177	–	–	3,177
Trade payables	–	–	1,333	1,333	–	–	1,333
Other financial liabilities	–	22	1,105	1,105	8	–	1,135

€ million	Measured at fair value: Recognized in other comprehensive income – Carrying amount	Measured at fair value: Through profit or loss – Carrying amount	Measured at amortized cost – Carrying amount	Measured at amortized cost – Fair value	Derivatives included in hedging relationships – Carrying amount	Not allocated to any IFRS 9 measurement category – Carrying amount	Balance sheet item at 12/31/2018
Noncurrent assets							
Equity-method investments	–	–	–	–	–	738	738
Other equity investments	2,807	–	–	–	–	11	2,818
Other financial assets	–	1	33	33	3	–	37
Current assets							
Trade receivables	–	–	1,447	1,447	–	–	1,447
Other financial assets	–	54	2,113	2,113	6	–	2,173
Cash and cash equivalents	–	–	1,150	1,150	–	–	1,150
Noncurrent liabilities							
Financial liabilities	–	–	1,258	1,258	–	–	1,258
Other financial liabilities	–	2	1,821	1,821	6	–	1,829
Current liabilities							
Financial liabilities	–	–	2,978	2,978	–	–	2,978
Trade payables	–	–	1,437	1,437	–	–	1,437
Other financial liabilities	–	24	1,665	1,665	12	–	1,700

Financial assets measured at fair value through other comprehensive income include other equity investments in corporations (equity instruments) for which the MAN Group exercises the option to measure them at fair value through other comprehensive income. These were classified in Level 3 as of both June 30, 2019, and December 31, 2018. For instruments measured through other comprehensive income, changes in fair value are recognized directly in equity, net of deferred taxes. These include, in particular, the investment in Scania.

The other assets and liabilities in the “measured at fair value” class were classified in Level 2 as of June 30, 2019, and December 31, 2018.

Derivatives included in hedging relationships were classified in Level 2.

Fair value hierarchy:

Measurement and presentation of the fair values of financial instruments are based on a fair value hierarchy that reflects the significance of the inputs used for measurement and is classified as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of Level 2 financial instruments is determined on the basis of the conditions prevailing at the end of the reporting period, such as interest rates or exchange rates, and using recognized models such as discounted cash flow or option pricing models.

Level 3: Unobservable inputs for the asset or liability.

The transfers between the levels of the fair value hierarchy are reported at the respective reporting dates. During the six months to June 30, 2019, there were no transfers between Level 1 and Level 2 of the fair value hierarchy, and there were no transfers into or out of Level 3 of the fair value hierarchy. As in fiscal year 2018, there were no transfers within the hierarchy in the six months ended June 30, 2019.

The following table shows the development of the balance sheet items measured at fair value and classified in Level 3. The €187 million (previous year: €–44 million) change in other comprehensive income relates to the "Other comprehensive income for the period from the fair value measurement of other equity investments (equity instruments)" item.

€ million	Financial assets measured at fair value (Level 3)
Balance at January 1, 2018	3,172
IFRS 9 adjustment	8
Balance at January 1, 2018 after adjustments	3,180
Fair value changes recognized in "Other comprehensive income for the period from the fair value measurement of other equity investments (equity instruments)"	– 44
Balance at June 30, 2018	3,136
Balance at January 1, 2019	2,807
Additions	123
Fair value changes recognized in "Other comprehensive income for the period from the fair value measurement of other equity investments (equity instruments)"	187
Balance at June 30, 2019	3,118

MAN SE received dividends of €185 million from Scania in the first half of 2019. €123 million of this amount was invested in the investee. This transaction is presented in the table above under "Additions."

Equity instruments are measured primarily using the relevant business plans and entity-specific discount rates. The inputs used to measure the fair value of the investment in Scania were largely unchanged compared with those used as of December 31, 2018, with the exception of the cost of capital. The cost of capital after tax decreased from 5.5% as of December 31, 2018, to 5.1% as of June 30, 2019. As of June 30, 2019, there were no material changes to the assessment of the impact on equity or profit after tax resulting from changes in the significant unobservable inputs, either in isolation or in combination with each other, compared with the assessment presented in the 2018 Annual Report.

The carrying amount of financial instruments measured at amortized cost as of June 30, 2019, corresponds to their fair value.

Related party disclosures

There have been no material changes in relationships with related parties compared with the disclosures in the consolidated financial statements for the period ended December 31, 2018.

The following table shows the volume of relationships with related parties.

Reporting period January 1 to June 30

€ million	Sales and services provided to		Purchases from and services rendered by	
	2019	2018	2019	2018
TRATON SE, Volkswagen AG, and Porsche Stuttgart [1]	12	3	36	50
Other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group	1,016	866	352	236
Unconsolidated subsidiaries of the MAN Group	5	29	2	6
MAN Group associates and joint ventures	65	69	38	47

[1] Porsche Automobil Holding SE, Stuttgart, including its affiliated companies and related parties

Receivables from related parties amounted to €771 million as of June 30, 2019 (December 31, 2018: €2,873 million). In the same period, liabilities and obligations to related parties declined from €6,770 million to €5,148 million. The year-on-year decline was mainly due to the lower level of borrowings from Volkswagen AG of €1,000 million (December 31, 2018: €2,000 million). A perpetual credit facility of €3.0 billion has been agreed with Volkswagen AG. The liabilities to other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group mainly relate to liabilities to Volkswagen Financial Services AG, Braunschweig, and its assigned national companies (Volkswagen Financial Services), and to companies of the former Power Engineering business.

The receivables from other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group included as of December 31, 2018, the purchase price regarding the sale of the Power Engineering business. The total amount of €1,978 million was paid in the reporting period. The sale of receivables to subsidiaries of Volkswagen AG that are not part of the MAN Group amounted to €549 million in the first six months of fiscal 2019 (previous year: €581 million). Furthermore, customer liabilities to financing companies of the Volkswagen Group are covered by standard industry buyback guarantees. See “Contingent liabilities and commitments” for further information on buyback guarantees.

Based on the domination and profit and loss transfer agreement between TRATON SE and MAN SE, the profit of €548 million for fiscal year 2018 calculated in accordance with German GAAP was transferred on February 20, 2019 (previous year: profit transfer of €193 million). No dividend was therefore distributed.

On June 30, 2019, TRATON SE, Munich, a subsidiary of Volkswagen AG, held 94.68% of the voting rights and 94.36% of the share capital of MAN SE.

The remuneration of members of the Executive Board generally consists of monthly salary payments (non-performance-related salary) and performance-related variable salary components. The remuneration system for Mr. Drees and Dr. Intra, who are also members of TRATON SE's Executive Board, was modified in January 2019. Since then, their variable remuneration has consisted of the following components:

The performance-related annual bonus ("annual bonus") is determined for each fiscal year at the reasonable discretion of the Supervisory Board of TRATON SE. In line with the conditions for the annual bonus, which are revised from time to time, it is designed to be dependent on the targets achieved for the relevant fiscal year and the preceding fiscal year. The equally weighted targets are currently the average operating return on sales of TRATON SE and the average return on investment of TRATON SE.

The long-term incentive (LTI) is determined by the Supervisory Board of TRATON SE at its reasonable discretion. The terms and conditions for the LTI provide for a period of three years for calculating the target achievement, and may be amended from time to time. The most recent modification to the LTI provided for the introduction of a share-based payment plan in January 2019. In this plan, a new performance period ("performance period") starts at the beginning of each fiscal year.

At the beginning of each new performance period, each eligible member of the Executive Board is conditionally awarded a certain number of performance shares. The number of performance shares depends (i) on the individual target amounts for each beneficiary Executive Board member and (ii) on the calculated price of Volkswagen AG preferred shares (in the pre-IPO phase) or the price of TRATON SE shares (in the post-IPO phase), with the arithmetic mean of the closing prices of the 30 trading days preceding the performance period being used to calculate the price.

During the pre-IPO phase, the individual target amount for the LTI in the case of 100% target achievement is €650,000 (gross) for eligible Executive Board members per three-year period, although the MAN Group only bears part of these amounts. If the contract of service begins or ends in the course of a year, the target amount for the LTI is calculated ratably for the period of service.

The number of performance shares at the end of a performance period ("final number of performance shares") depends on the number of performance shares conditionally awarded at the beginning of the performance period and the achievement of the "earnings per share" target amounts. These are determined at the beginning of the performance period. The payout amount depends on the final number of performance shares and the calculated price of Volkswagen AG preferred shares (in the pre-IPO phase) or the price of TRATON SE shares (in the post-IPO phase), using the arithmetic mean of the closing prices of the last 30 trading days of the performance period and including any dividends paid out during the performance period.

The amount paid out is capped at 200% of the target amount.

In the case of extraordinary events or developments at the level of TRATON SE, e.g., a business combination, significant changes in the shareholder structure, or certain corporate actions or structural measures implemented by the Company, the Company is entitled, under certain conditions, to modify the terms and conditions of the plan or the number of performance shares. In "bad leaver" cases, which are defined in the relevant performance share plan (in particular in the case of the extraordinary termination of an Executive Board member), all the performance shares of a current performance period are forfeited and not replaced or otherwise compensated.

The terms and conditions of the LTI for each performance period are determined by the Supervisory Board of TRATON SE at its reasonable discretion. The Supervisory Board has introduced provisions governing penalties and salary clawbacks in the event of misconduct (including breaches of oversight or organizational duties as a "cultural and integrity corrective"), which can lead to a reduction or the complete forfeiture of the LTI or to the clawback of an LTI that has already been paid out.

The fair value of the performance share obligation of the MAN Group as of June 30, 2019, amounted to €0 million. The amount is based on the allocations by TRATON SE, which will pay out the performance shares to the beneficiary Executive Board members, to MAN.

The following expenses were recognized by MAN SE for key management personnel relating to their activity as members of the Executive Board:

Reporting period January 1 to June 30

€ million	**2019**	**2018**
Short-term benefits	1	3
Share-based payment	0	–
Post-employment benefits	0	0
	2	**3**

Segment reporting

Please refer to the MAN Group's consolidated financial statements as of December 31, 2018, for information on the basis used for identifying and assessing the performance of reportable segments. The adjustments to the measurement methods described in the "Accounting policies" chapter are also applied in the segments.

The following tables contain segment-related information for the first six months of 2019.

Reporting period January 1 to June 30

€ million	MAN Truck & Bus 2019	MAN Truck & Bus 2018	MAN Latin America 2019	MAN Latin America 2018
Segment sales revenue	**5,523**	**5,194**	**860**	**674**
Intersegment sales revenue	– 103	– 51	– 2	– 3
Group sales revenue	5,420	5,143	858	670
Segment profit or loss (operating profit or loss)	**253**	**285**	**18**	**13**
Capital expenditures	**189**	**206**	**36**	**32**

	Others						Group	
	Corporate Center[1]		Cons./Reconcil.		Total			
€ million	2019	2018	2019	2018	2019	2018	2019	2018
Segment sales revenue	**4**	**5**	**– 104**	**– 58**	**– 101**	**– 53**	**6,283**	**5,814**
Intersegment sales revenue	– 3	– 4	107	58	105	55	–	–
Group sales revenue	1	1	3	–	4	1	6,283	5,814
Segment profit or loss (operating profit or loss)	**– 18**	**– 34**	**– 4**	**– 9**	**– 22**	**– 43**	**248**	**255**
Capital expenditures	**124**	**2**	**–**	**–**	**124**	**2**	**348**	**241**

[1] Corporate Center: MAN SE, Shared Services companies, and equity investments held directly by MAN SE

The reconciliation of total profit / loss of the segments to the MAN Group's profit / loss before tax is presented in the following:

€ million	2019	2018
Total profit of the segments (operating profit of the segments)	**271**	**299**
Corporate Center operating loss	– 18	– 34
Earnings effects from purchase price allocations not attributed to the segments	– 7	– 8
Consolidation within the MAN Group	3	– 1
Operating profit (MAN Group)	**248**	**255**
Financial result	222	199
Profit before tax and discontinued operations (MAN Group)	**470**	**455**

Review by the Group auditors

The half-yearly consolidated financial statements as of June 30, 2019, and 2018, were not reviewed by auditors.

Supervisory Board

There were the following changes to the composition of the Supervisory Board:

On application by the Executive Board, the Munich Commercial Register Court appointed Ms. Annette Danielski as a member of the Supervisory Board by way of a resolution on November 5, 2018. MAN SE's Annual General Meeting on May 22, 2019, confirmed the election of Ms. Danielski as a member of MAN SE's Supervisory Board for the remaining term of office of the Supervisory Board. Ms. Annette Danielski succeeds Mr. Matthias Gründler, who stepped down from the Supervisory Board in 2018.

As successors to Mr. Helmut Brodrick and Mr. Werner Wiedemann, who left the Supervisory Board as of the end of December 31, 2018, Ms. Karina Schnur and Mr. Markus Wansch were appointed to the Supervisory Board as employee representatives by the SE Works Council effective February 22, 2019. Ms. Brigitte Runge was appointed as the successor to trade union representative Ms. Karina Schnur, also effective February 22, 2019.

Events after the reporting period

MAN Latin America received a repayment of €114 million on July 8, 2019, for amounts and interest resulting from security deposits provided in Brazil. This will have a positive effect on the MAN Group's financial position in the second half of 2019, although the repayment will not have any material effect on profit or loss.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for half-yearly financial reporting, the condensed half-yearly consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Munich, July 22, 2019

MAN SE

The Executive Board

Joachim Drees Dr. Carsten Intra Jan-Henrik Lafrentz

MAN SE FINANCIAL DATES

The latest information is available on MAN SE's website, www.corporate.man.eu, under the "Investor Relations" heading.

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This is a translation of the German original. In the event of discrepancies between the German language version and any translation thereof, the German language version will prevail.

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