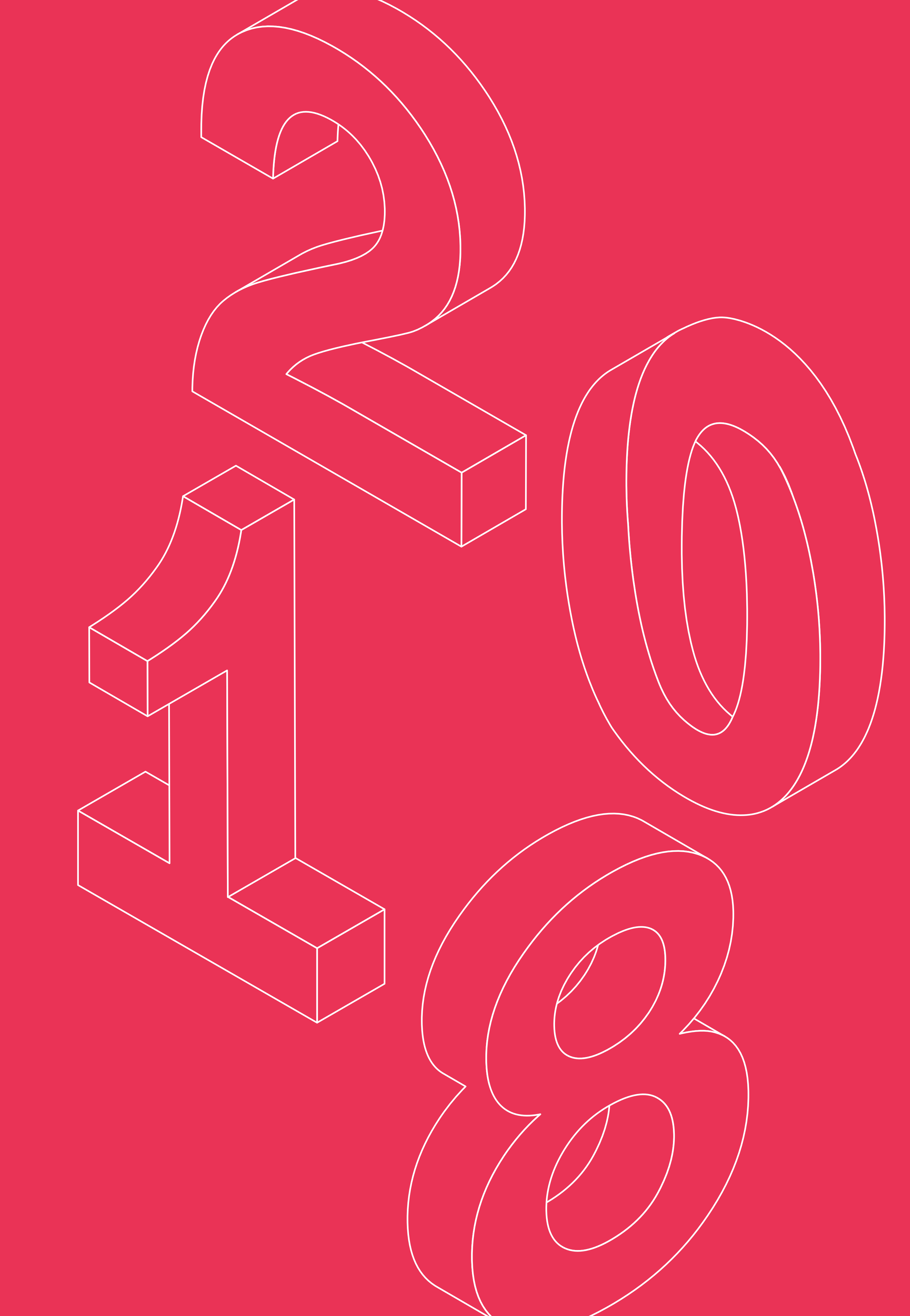
ANNUAL
REPORT

2018

Engineering the Future – since 1758.

MAN SE


2018

The MAN Group is one of Europe’s leading players in the commercial vehicle industry. It aims to offer innovative transportation solutions for its customers as well as generating profitable international growth and a sustained increase in its enterprise value.

MAN AT A GLANCE

2018

13.9 € billion	ORDER INTAKE INCREASED SHARPLY	[2017: €12.4 billion]
12.1 € billion	SALES REVENUE SIGNIFICANTLY ABOVE THE PREVIOUS YEAR	[2017: €11.1 billion]
332 € million	SLIGHT DECLINE IN OPERATING PROFIT	[2017: €358 million]
2.7 percent	DECLINE IN OPERATING RETURN ON SALES	[2017: 3.2%]
+0.4 € billion	POSITIVE NET CASH FLOW	[2017: €–0.3 billion]

Group key figures (IFRSs)

€ million	2018	2017	Change in %
Order intake	**13,913**	**12,397**	**12%**
Germany	3,911	3,268	20%
Other countries	10,002	9,129	9%
Sales revenue	**12,104**	**11,087**	**9%**
Germany	3,194	2,961	8%
Other countries	8,910	8,126	10%
Order backlog [1]	**3,770**	**3,000**	**26%**
Headcount [1]	**38,430**	**54,297**	**–29%**
			Change in € million
Income statement			
Operating profit	332	358	–26
Operating return on sales in %	2.7	3.2	–0.5
Profit before tax from continuing operations (EBT)	562	327	235
Profit after tax	686	321	365
Balance sheet			
Total assets [1]	19,751	20,282	–531
Total equity [1]	5,685	6,125	–440
Equity ratio in % [1]	28.8	30.2	–1.4
Net financial debt [1]	–3,051	–2,291	–760
Cash and cash equivalents [1]	1,150	782	368
Cash flow			
Gross cash flow – continuing operations	1,435	1,132	304
Change in working capital – continuing operations	–820	–829	9
Net cash used in investing activities attributable to operating activities	–235	–628	393
Net cash flow – continuing operations	380	–326	706
			Change in €
Shares			
Earnings per share from continuing operations in €	2.97	1.06	1.90
Annual cash compensation payment/guaranteed dividend per share (in €) [2]	5.10	5.10	–

1 As of December 31, 2018, vs. December 31, 2017

2 MAN SE does not distribute any further dividends from fiscal 2014 onward as a result of the DPLTA, which was in force until December 31. Instead, TRATON SE has agreed to make annual cash compensation payments of €5.10 per common or preferred share for the full fiscal year to MAN SE free float shareholders for the duration of the DPLTA, starting in fiscal 2014.

HIGHLIGHTS 2018

ELECTRIFYING PERFORMANCE

MAN Truck & Bus scores points at the IAA Commercial Vehicles in Hanover with record trade fair sales and numerous innovations. New electric vehicles, in particular, were in the spotlight.

The electric vehicle family: the MAN Lion's City E, the MAN eTGE, and the MAN eTGM (from left to right)

MAN Truck & Bus sold around 11,000 trucks, buses, and vans at the IAA in September 2018, making it the company's most successful trade fair of all time. One of the most important issues on the agenda at this trade show for commercial vehicles in Hanover? Electric mobility in an urban setting. MAN Truck & Bus presented a large number of innovative vehicles.

The world premiere of the 15-ton fully electric MAN CitE, designed consistently to suit urban delivery needs, saw MAN set new standards in safety, ergonomics, and eco-friendly transportation. The concept truck boasts a range of at least 100 kilometers, enough for driving around the city for a day. It stands out thanks to its ergonomic design with an extremely low entry height and an even driver cab floor. In addition, large side windows and supporting cameras give drivers and passengers an all-round safe view of the traffic around them.

The MAN CitE bridges the gap between the MAN eTGM, an electric truck with a permissible gross vehicle weight of 26 tons that is already being put through its paces on Austrian roads, and the MAN eTGE, an electric van that went on sale at the IAA 2018 when the first four vehicles were handed over to Berlin's public transportation operator BVG.

For the bus market, MAN Truck & Bus debuted the MAN Lion's City E, the fully electric version of its new city bus. It offers a reliable range of 200, even up to 270 kilometers if conditions are favorable, across the entire battery life cycle. As part of several field tests, a demo fleet's suitability for daily use will be examined from mid-2020 onward in cooperation with various European operators. Serial production is scheduled to start in the second half of 2020.

The fully electric MAN CitE is leading the way in all things safety and ergonomics.

OPTIMIZATION MADE EASY

Intelligent digital services are making modern-day fleets even more cost-efficient and eco-friendly. Exclusive services are now on offer for MAN Truck & Bus customers.

Since introducing its new brand, MAN DigitalServices, in the fall of 2018, MAN Truck & Bus has been offering digital services exclusive to MAN vehicles, enabling customers to make their trucks even more cost-efficient, eco-friendly, and safer. MAN DigitalServices is powered by RIO, the cloud-based digital platform for logistics applications. In addition to maintenance management services, the electronic marketplace can also be used to book and manage applications for improving vehicle analysis and performance, as well as driver performance.

PRECISION IN THE VIRTUAL CAVE

Remedying faults before the first prototype is even built is now possible thanks to the virtual test lab at MAN Truck & Bus.

MAN Truck & Bus's new trucks and buses take shape in the CAVE well before the first physical prototype is built. "CAVE" stands for "Cave Automatic Virtual Environment." The 3D test lab, a 46-square-meter high-tech creative design facility in Munich, is equipped with five high-performance computers that include high-end graphics cards, infrared cameras, and stereo projectors featuring 2K image resolution for four large screens. The precision work that takes place in the CAVE cuts lead development time and optimizes the production process. This enables up to 50% of all deviations to be eliminated before a prototype is built. "The advantage of virtual reality is that it saves us time, material, and a lot of money," comments Martin Raichl, Advance Development and Prototyping Engineer at MAN Truck & Bus. It also makes working on the same virtual model from different countries possible, since the CAVE is connected to other MAN labs.

Employees at the CAVE virtual lab work on new vehicles in 3D.
←

DIGITALLY NETWORKED TRUCK CONVOY ON THE A9

A visionary research project has now become reality: the MAN Truck & Bus truck platoon is on the road and being tested in daily logistics operations — a one-of-a-kind practical experiment.

Together with logistics provider DB Schenker and the Fresenius University of Applied Sciences, MAN Truck & Bus has launched two digitally networked trucks on its digital test site, the A9 highway between Munich and Nuremberg. Platoons carrying loads have been in operation along this 145-kilometer route every day since the fall of 2018. Joachim Drees, CEO of MAN SE and MAN Truck & Bus AG, on this unique practical test worldwide: "The findings from this joint project are an important step toward series development. This will give MAN a leading role in the automation and digitalization of commercial vehicles." During the practical testing phase, the platooning technology will be further optimized, for example with regard to system safety and fuel consumption.

The MAN Truck & Bus truck platoon is in operation on its digital test site, the A9 highway.

145

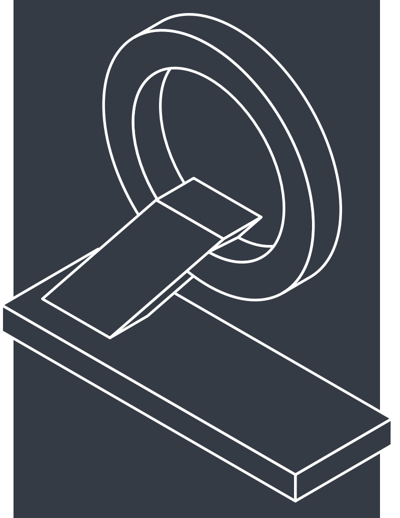
km test route

MAKE WAY FOR THE DRIVERLESS LIFESAVER

MAN Truck & Bus receives the 2019 Truck Innovation Award for its fully automatic safety vehicle. The truck has already been put through its paces in an on-road trial that went off without a hitch.

Winning the jury over: MAN aFAS, the automated and driverless safety vehicle for roadwork on German highways, received the Truck Innovation Award in September 2018. The unmanned vehicle — an MAN TGM 18.340 — slowly drives behind mobile construction sites, with car-to-car communication enabling it to follow the vehicle in front, which is used in the breakdown lane on highways.
It took MAN Truck & Bus four years to develop this innovative safety solution with the support of the German Federal Ministry for Economic Affairs and Energy and with the involvement of technical institutions and numerous supplier partners. The jury praised the fact that the MAN aFAS has already been tested on over 4,000 kilometers of public roads without any incidents, as well as its straightforward handling and the extensive use of serial components. As he accepted the award, MAN CEO Joachim Drees said: “This system has already been tested under real conditions on the highways in Hesse. As you can see, we’re not just talking about innovation, we’re living it.” The members of the jury also highlighted that the aFAS has the potential to save lives since mobile construction sites on highways pose a considerable risk of accidents for the people working on them.
The aFAS project was completed successfully in June 2018. MAN intends to use the insights it has gained as a result of this process in future series development and to support further test and research projects on the subject of automated and autonomous driving, such as platooning.

The 2019 Truck Innovation Award goes to the MAN aFAS safety vehicle.



OFF TO A QUIET START

Nine partner companies from the Council for Sustainable Logistics test modern electric trucks from MAN Truck & Bus on Austrian roads in everyday logistics operations.

The delivery of the first MAN eTrucks to member companies of the Council for Sustainable Logistics (CNL) in September 2018 marked the start of a development partnership like no other. Upon handing over the trucks at the MAN Truck & Bus plant in Steyr, MAN CEO Joachim Drees explained: “The time has come, the first MAN electric trucks are on the road — used by our customers on a daily basis. From now on, they will be delivering things like beverages, food, or vehicle parts — all the while producing no emissions locally and making virtually no noise.”
CNL is made up of 18 of Austria’s largest retail, logistics, and production companies, who joined forces in order to make headway in the field of sustainable logistics. Nine MAN eTGM test vehicles have been customized to suit the needs of these companies, namely Gebrüder Weiss, HOFER, Magna Steyr, METRO, Quehenberger Logistics, REWE, Schachinger Logistik, SPAR, and the Stiegl brewery. They will now be tested under realistic conditions in everyday transportation. MAN Truck & Bus will incorporate the experience it acquires while testing the vehicles in practice over several months into further series development of electric trucks.

Practical tests have begun for nine MAN eTGM test vehicles in Austria.
←

AN ELECTRIC VEHICLE CONSTRUCTION KIT

MAN Latin America's innovated e-Delivery and Volksbus e-Flex win over the IAA Commercial Vehicles.

Flexible assembly, more space for batteries: MAN Latin America has developed a new modular configuration for electric vehicles, which it revealed in the e-Delivery model, the truck it presented at the IAA Commercial Vehicles in September 2018 in Hanover. The vehicle is divided into three parts: a front module with the cabin and additional functions, a middle module with the batteries, and the rear module with the power train. The modules are independent of each other, so that the various components can be combined for other electric vehicles as well. The e-Delivery has a range of more than 200 kilometers, with its battery reaching full capacity in three hours thanks to the quick-charging mode. "With dimensions suitable for use in urban areas, as well as functions for convenience, connectivity, safety, low operating costs, and energy efficiency, our e-Delivery helps to make the concept of efficient and intelligent cities with rational and productive freight transportation a reality," says Roberto Cortes, CEO of MAN Latin America. The product is already a hit: Brazilian brewery Ambev has announced plans to deploy a total of 1,600 electric MAN Latin America trucks by 2023. The e-Delivery will go into serial production in Brazil from 2020 onward.
The Volksbus e-Flex was also in the spotlight during the trade fair, with MAN Latin America developing a flexible architecture for its electrification. This means all electric mobility options are viable, be it battery electric vehicles, hybrid or plug-in hybrid electric vehicles, or range-extended electric vehicles. Performance stays the same, regardless of how the batteries are charged.

↑
The Volksbus e-Flex has a flexible architecture for its electrification.

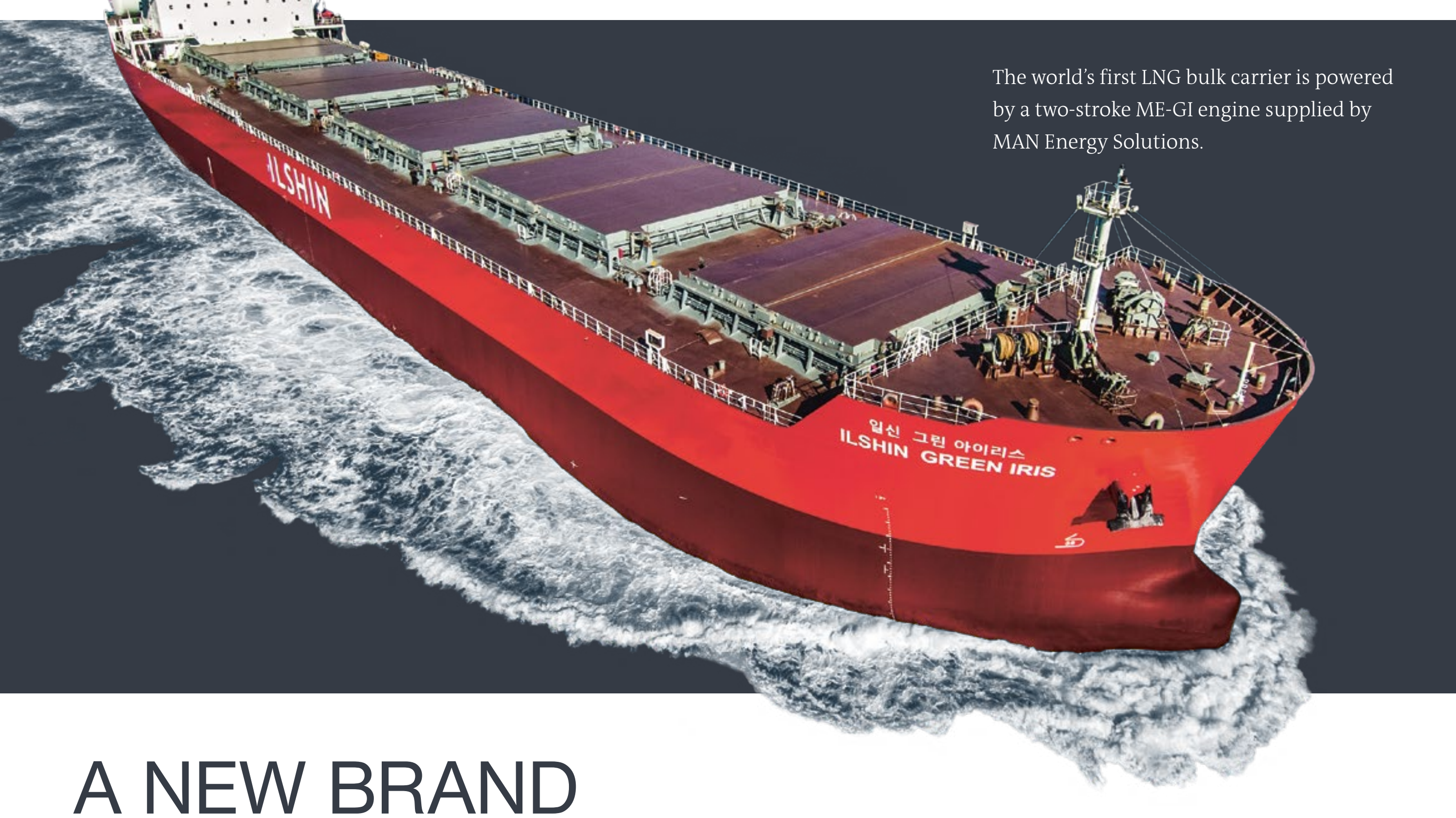
The e-Delivery: an electric truck with a modular construction that makes customer-specific configurations possible.

FULL STEAM AHEAD WITH LNG

Decarbonizing shipping calls for low-emission fuels. MAN Energy Solutions supplies the right propulsion packages for the world's first LNG-powered bulk carrier and fish trawler.

News of the Ilshin Green Iris carrier being delivered was a special moment: the vessel, which was built at the Hyundai Mipo Dockyard in Korea in 2018, is the world's first bulk carrier to run on liquefied natural gas (LNG). It has a two-stroke ME-GI engine courtesy of MAN Energy Solutions. The vessel's LNG fuel tank with a capacity of 500 cubic meters is made from steel that is specially designed for cryogenic LNG and liquefied gas storage applications. The Ilshin Green Iris was chartered by steelmaker POSCO to transport limestone cargoes in the Korean coastal trade.

MAN Energy Solutions is also involved in the construction of the world's first fish trawler fueled by LNG. The Libas, an 86-meter fish trawler, is being built by the Cemre Shipyard in Istanbul, with MAN Energy Solutions providing a complete propulsion package and a fuel-gas system. The vessel will feature an MAN 6L51/60DF main engine, Renk gearbox, MAN Alpha propeller system, and MAN Cryo LNG fuel-gas system with a 350-cubic-meter tank. Wayne Jones, Chief Sales Officer of MAN Energy Solutions, explains: "This is a pioneering project. At MAN we are convinced that low-emission gas fuels are the silver bullet to decarbonizing the shipping industry and we have made it our mission to guide our customers through that transition." MAN Energy Solutions has been publicly championing the maritime energy transition since 2016. The initiative has now received widespread support from the shipping industry and from policymakers.



The world's first LNG bulk carrier is powered by a two-stroke ME-GI engine supplied by MAN Energy Solutions.

A NEW BRAND IDENTITY

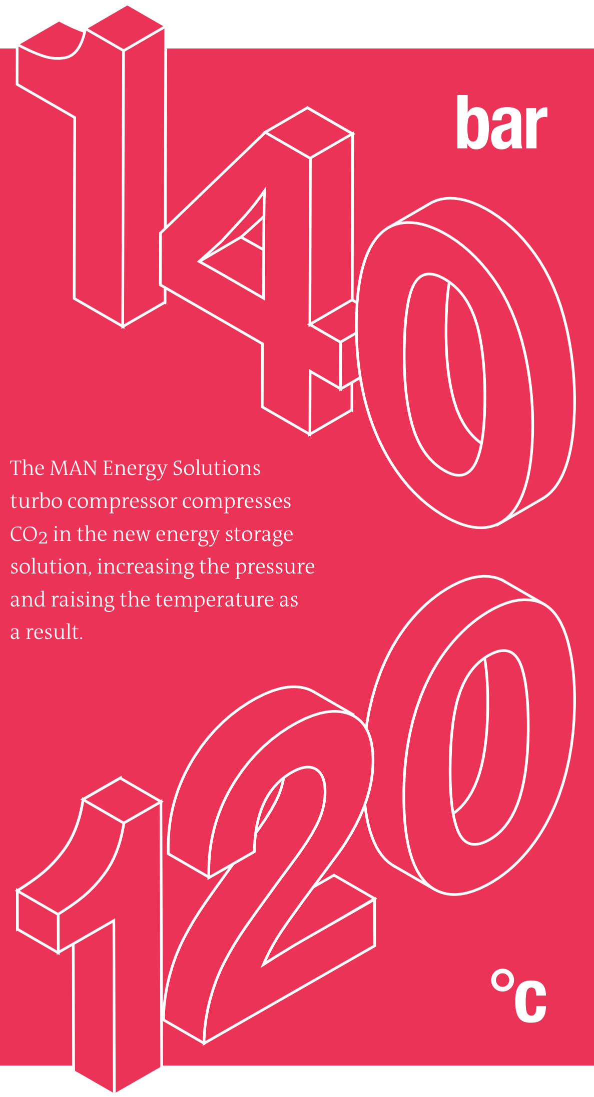
MAN Diesel & Turbo has become MAN Energy Solutions. The Augsburg-based company has a new name and is sharpening its strategic focus with even more emphasis on sustainable technologies and solutions.

MAN Diesel & Turbo took an important step in June 2018 when it rebranded as MAN Energy Solutions. Dr. Uwe Lauber, Chief Executive Officer of MAN Energy Solutions, explains: "Whether we are talking about a marine drive system, smart energy networks, or efficient industrial process solutions — converting energy into concrete economic and social benefits lies at the core of our business. By rebranding as MAN Energy Solutions, we are taking the next logical step and making that focus clear in our company name as well." The accompanying new branding embodies a strategic and technological transformation, with the company set to expand its business with sustainable technologies and solutions such that they become its main source of revenue by 2030.

UNIQUE ENERGY STORAGE SOLUTION

Cooling, heating, and electricity — all from renewable energy. The energy storage system MAN Energy Solutions is developing together with technology company ABB delivers all three on a large scale.

In summer 2018, MAN Energy Solutions signed a cooperation agreement with ABB Switzerland for the development, production, and commercialization of an innovative Electro-Thermal Energy Storage system (ETES) . ETES uses renewable energy to generate heat and to cool. The energy is stored in insulated reservoirs and can either be converted back into electricity or used directly. This makes it possible to use, distribute, and store energy simultaneously. Common areas of application for heat include it being transferred to district heating or supplied to the food-processing industry, whereas the cold it produces can be used to cool data centers, ice hockey arenas, or as air conditioning for skyscrapers. ETES features MAN Energy Solutions' hermetically sealed HOFIM turbo compressor within the charging cycle to compress the CO_2 working fluid to its supercritical state at typically 140 bar and around 120°c. Dr. Uwe Lauber, CEO of MAN Energy Solutions, explains: "Recent studies have shown that the biggest challenge in mastering the energy transition is making renewable energy usable for the heating and cooling sector." The new energy storage system will be particularly well suited for urban regions.



The MAN Energy Solutions turbo compressor compresses CO_2 in the new energy storage solution, increasing the pressure and raising the temperature as a result.

VALUABLE SUPPORT

MAN Energy Solutions supports the world's largest hospital ship with free spare parts.

In the fall of 2018, MAN Energy Solutions extended its partnership with charity Mercy Ships for another two years. In doing so, MAN Energy Solutions is continuing to sponsor the Africa Mercy, the world's largest civilian hospital ship providing free medical assistance to those who need it. Under the terms of the agreement, Mercy Ships will receive further spare parts worth a total of €500,000 — for instance for the four MAN engines on board.

A floating hospital: more than 400 volunteers work on board the Africa Mercy.
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FINANCIAL DIARY

(expected dates)*

2019

MAY 22

ANNUAL GENERAL MEETING FOR FISCAL YEAR 2018

2019

JULY 30

HALF-YEARLY FINANCIAL REPORT 2019

* The latest information can be found on the MAN Global Corporate Website at financialdates.man

Publication date for the MAN 2018 Annual Report

March 20, 2019

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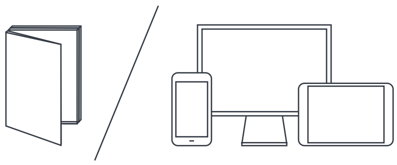
THE ANNUAL REPORT ONLINE

This 2018 Annual Report can also be downloaded as a PDF file from our website online at **annualreport2018.man**



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TO OUR SHAREHOLDERS

1

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TO OUR SHAREHOLDERS

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Dear Shareholders,

2018 was an eventful year for the MAN Group. We made progress in many areas and improved key financial indicators of the Company. The issues of the future — alternative drives, digitalization, and automated driving — are rapidly changing mobility, transportation, and logistics. Our focus on the resulting challenges has never been greater. At the instructions of TRATON SE, we sold MAN SE's Power Engineering business to a subsidiary of Volkswagen AG at the end of 2018.

Although the global economy and worldwide trade expanded again in the year under review, trade conflicts as well as the unpredictable outcome of Brexit were among the main factors causing uncertainty. Against this backdrop, the MAN Group's business recorded encouraging growth. Our Group's order intake increased by 12% to €13.9 billion. Sales revenue expanded by 9% to €12.1 billion.

MAN Truck & Bus benefited from a rise in demand, with the European truck market achieving another slight increase from an already high level. Among the larger volume markets, in particular Germany, France, Poland, and Italy saw growth in demand, while there was a moderate decline in the United Kingdom. Outside Europe, the market contracted to a very low level, especially in Turkey. The Russian truck market deteriorated during the course of the year and only recorded minimal year-on-year growth. The European bus market saw positive development in 2018. Order intake and sales revenue of MAN Truck & Bus were up significantly on prior-year values in 2018.

MAN Latin America also recorded a positive performance in 2018, consolidating its leading position in the market for trucks weighing over five tons and in the bus market in Brazil. Buoyed by the country's economic recovery, the Brazilian commercial vehicles market grew considerably in the reporting period. Government investment in a new school bus program also made a contribution to this development. The order intake and sales revenue recorded by MAN Latin America in 2018 were significantly higher than in the previous year.

After years of losses, MAN Latin America has become profitable again. MAN Truck & Bus also benefited from the rise in sales revenue, although this was offset by higher expenses for new products and markets and the intense competition, among other factors. In addition, considerable expenses were required to restructure the activities in India. Adjusted for these items, MAN Truck & Bus's operating profit was approximately on a level with the previous year.

In total, the MAN Group's operating profit was €332 million, slightly down on the previous year. As a proportion of the significantly higher sales revenue, the MAN Group's operating return on sales declined to 2.7%.

For fiscal year 2018, we can therefore conclude as follows: in terms of unit sales and sales revenue, we beat the projected targets, but only met our earnings targets to a limited extent. The MAN Group's profitability was still far below the strategic target in 2018. We are working hard on a lasting improvement, and this includes our continued focus on resolutely implementing the initiated programs for the future. To ensure future growth and attain profitability goals, it is essential to achieve continuous improvements and operational excellence. In addition, our investments are at a high level. As part of this process, we subject all projects to a critical review and set clear priorities for essential research and development activities that will drive home our focus and improve our operating efficiency.

A critical success factor of the MAN Group is and remains our ability to innovate. Given the major challenges we are currently facing, we are directing our efforts toward the development of new products and services with a clear focus on the issues of the future — alternative drives, digitalization, and automated driving.

A milestone, and the world's first project of its kind, in the area of digitalization and automation of commercial vehicles is the truck platooning project undertaken jointly with DB Schenker and the Fresenius University of Applied Sciences. Truck platoons consisting of two vehicles each have been deployed in practical driving operations on the Munich-Nuremberg highway since June 2018. The advantages of the digitally networked platoons include lower fuel consumption and a reduction in the risk of accidents.

A highlight of the reporting year was MAN's success at the leading international trade show for commercial vehicles (IAA) in Hanover, where we sold around 11,000 vehicles, a new trade show record. To meet the challenge of making city mobility and transportation low in harmful substances and as emission-free locally as possible, we have designed and developed a number of new vehicles, which we presented at the trade show. In all these products, the emphasis is also on customer benefits such as functionality and cost-effectiveness.

One example is the MAN CitE, an electric truck for inner-city distribution transportation, whose innovative design in terms of entry height, seating position, and all-round vision provides huge benefits for drivers. What is more, serial production of the MAN eTGE, a battery-electric version of the new MAN van, started in 2018. Together with customers, we also tested our fully electric MAN eTGM delivery truck in day-to-day operations. From 2022, we will start serial production of these types of eTrucks for urban distribution transportation.

In the bus segment, the newly developed Lion's City G is a vehicle that has extremely low emissions when operated with natural gas and the potential to be CO2-neutral when driven with biogas. We also presented a prototype of the MAN Lion's City E bus, which is close to serial production. With a charging time of only three hours, it has a potential range of 270 kilometers. Serial production of fully electric city buses will start as early as in 2020. All these innovations and other new products are taking our business forward.

I am convinced that our close integration with the TRATON GROUP, which was established in 2018 and supersedes the former Volkswagen Truck & Bus Group, will be a key driver of our future success. MAN Truck & Bus, Scania, and MAN Latin America work closely together under the umbrella of TRATON. The companies are jointly developing core power train components. Engines, transmissions, axles, and exhaust aftertreatment systems are being created on common platforms that can then be adapted by the individual brands. The aim is to turn TRATON and the MAN, Scania, and Volkswagen Caminhões e Ônibus brands into a Global Champion. The brands will retain their identities and full operational responsibilities.

Our assumption is that global economic growth will slow in 2019. Expansion in both the advanced and the emerging economies will be weaker than in 2018. Moreover, volatility on the financial markets and geopolitical tensions and conflicts may hold back growth.

Against this backdrop, the European truck market is expected to decline slightly in 2019. Demand for trucks will rise tangibly in South America. For the relevant bus markets, there are indications that demand will be slightly higher than in the previous year. Overall, major challenges will remain in our markets given that competition and price pressure will again be high. At the same time, our efforts to develop innovative concepts for alternative drives, digitalization, and automated driving require major upfront investments.

Against this background, the Executive Board of MAN SE expects the MAN Group's sales revenue to increase slightly in 2019. We believe that unit sales and sales revenue will be essentially constant at MAN Truck & Bus. MAN Latin America will probably record a tangible increase in unit sales and sales revenue. The MAN Group's operating profit and operating return on sales will improve noticeably in 2019 compared with the previous year.

Sincerely,

Joachim Drees
Chief Executive Officer of MAN SE

MANAGEMENT BOARD

Joachim Drees
Chief Executive Officer

Born in 1964. Studied business administration. Started his career in management consultancy and working for the privatization agency (Treuhandanstalt) in Berlin. From 1996 onward held different management positions in the Daimler Truck Group and at Mercedes-Benz. Became Partner for Portfolio Management at UK investment company HgCapital LLP in 2006. Chief Financial Officer at Drees & Sommer AG from 2012. Chief Executive Officer (CEO) of MAN Truck & Bus AG since April 2015 and additionally of MAN SE since October 2015. Also member of the Executive Board of TRATON SE.

Dr. Carsten Intra
Chief Human Resources Officer

Born in 1971. Studied mechanical engineering with subsequent postgraduate studies in economics and completed a doctorate. Joined MAN Truck & Bus AG in 2001. Held various management positions in production, logistics, and materials management. Became Executive Board member for Production & Logistics at MAN Latin America in 2009. Appointed Executive Board member for Production & Logistics at MAN Truck & Bus AG in 2012 and additionally Executive Board member for Research & Development from 2015 onward. Chief Human Resources Officer and *Arbeitsdirektor* (Executive Board member responsible for employee relations) at MAN SE and MAN Truck & Bus AG since July 2017. Also member of the Executive Board of TRATON SE.

Jan-Henrik Lafrentz

Chief Financial Officer

Born in 1966. Studied business administration. From 1994 held various positions in the Volkswagen Group. Named Executive Vice President Finance at SEAT S.A. in 2004; moved into sales as Executive Vice President for Sales and Marketing in 2009. Became Executive Board member for Finance, IT, and Corporate Development at Bentley Motors in 2010 and additionally Finance Director of Bugatti Automobiles S.A.S. in 2011. Executive Board member for Finance, IT, and Legal at MAN Truck & Bus AG since July 2014; Chief Financial Officer (CFO) of MAN SE since October 2015.

Antonio Roberto Cortes

President of MAN Latin America

Born in 1955. Studied economics and finance. Joined Volkswagen in South America in 1994 as a corporate controller. Became head of South American operations of Volkswagen Commercial Vehicles and Trucks and Buses in 2000. Appointed Executive Vice President of Volkswagen Commercial Vehicles and CEO of Volkswagen Trucks and Buses in December 2002; named President of Volkswagen Trucks and Buses in February 2007. President of MAN Latin America since 2009. Also member of the Executive Board of TRATON SE.

REPORT OF THE SUPERVISORY BOARD[1]

Dear Shareholders,

The Supervisory Board of MAN SE addressed the Company's position and development regularly and in detail in fiscal 2018. In accordance with the recommendations of the German Corporate Governance Code and the legal requirements, we regularly advised the Executive Board in its management of the Company and monitored its activities.

We were involved in an advisory capacity in all matters and decisions of major importance to the MAN Group.

The Executive Board provided us with regular, comprehensive, and timely information, in both written and verbal form, on the development of the business, relevant business events, corporate planning, and deviations in the course of business from forecasts as well as their causes.

The Executive Board also reported to the Supervisory Board, in particular, on the MAN Group's strategies and the implementation status of strategic projects, the MAN Group's risk position and risk management, as well as compliance issues.

Documents relevant to our decisions were always made available to us in good time prior to Supervisory Board meetings.

During regular talks with the Chief Executive Officer outside the Supervisory Board meetings, I also discussed matters and issues relevant to the Company, such as the development of the business, planning and strategic projects, the risk position, risk management, and compliance.

The Supervisory Board held five regular meetings in fiscal 2018, one of which was a conference call. In addition, resolutions on urgent matters were adopted in writing.

No members of the Supervisory Board attended only half or fewer of the meetings of the Supervisory Board and of the committees to which they belong.

Committee activities

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

The main role of the committees is to prepare Supervisory Board resolutions. In some cases, the Supervisory Board's decision-making powers or tasks are transferred to committees.

The Nomination Committee is tasked with identifying candidates for Supervisory Board positions and recommending suitable candidates to the Supervisory Board as the latter's proposals for election at the Annual General Meeting. In this capacity, the shareholder representatives on the Presiding Committee act as the Nomination Committee.

Mr. Matthias Gründler was Chairman of the Audit Committee until he left the Supervisory Board on May 17, 2018. The Committee elected Ms. Annette Danielski as its new chair. Prior to this, Mr. Kerner chaired the Audit Committee on an interim basis.

The Presiding Committee is always chaired by the Chairman of the Supervisory Board.

At the Supervisory Board meetings, the chairperson of the Audit Committee at the time and I provided regular reports on the work of the committees.

A list of the members of the committees as of the end of 2018 is provided on page 150 of this Annual Report.

The **Presiding Committee** held a total of four face-to-face meetings in 2018.

It dealt, in particular, with all the key issues to be discussed at the following full Supervisory Board meetings and prepared resolutions for them.

The **Nomination Committee** met once in the reporting period due to the election of Ms. Porsche-Schröder to the Supervisory Board as a replacement member.

[1] In accordance with section 171 (2) of the *Aktiengesetz* (AktG – German Stock Corporation Act)

The **Audit Committee** held a total of four meetings in the reporting period, one of which was a conference call.

It dealt in detail with financial reporting issues, the annual financial statements of MAN SE and the MAN Group, and the audit reports submitted by the auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich (“PwC”).

The Committee discussed the half-yearly financial report with the Executive Board prior to its publication.

PwC reviewed the MAN Group’s interim financial statements as of June 30, 2018. This did not lead to any objections. The Committee discussed the findings of the review with the auditors in detail.

The Audit Committee also addressed the engagement of the auditors to audit the annual financial statements for 2018, the areas of emphasis of the audit, and the rotation of the auditors from fiscal year 2020 onward.

The Committee regularly addressed the development of business in the MAN Group, the internal control system, risk management and the risk management system, and the MAN Group’s risk position, among other issues.

The Audit Committee also addressed compliance and internal audit issues, such as the MAN Group’s internal audit system and the audit plan for MAN’s Corporate Audit function, as well as its implementation status.

The head of MAN’s Corporate Audit function and MAN’s Chief Compliance Officer also reported to the Committee in person.

The state of progress in implementing the General Data Protection Regulation (GDPR) was also reported to the Audit Committee.

Issues addressed by the Supervisory Board

Topics discussed regularly by the Supervisory Board included trends with respect to orders, sales revenue, earnings, and employment within the MAN Group. We also regularly addressed key strategic matters and projects, as well as programs for the future at MAN subsidiaries.

In general, the shareholder and employee representatives met for separate preliminary discussions before each of the Supervisory Board meetings.

The following additional information relates to the Supervisory Board meetings held in 2018:

Supervisory Board meeting on February 28, 2018

Our meeting on February 28, 2018, focused on the annual financial statements for 2017. After detailed examination, we approved the consolidated financial statements prepared by the Executive Board and the annual financial statements of MAN SE for 2017, plus the Combined Management Report of MAN SE and the MAN Group.

We also dealt on February 28, 2018, with the agenda of the 2018 Annual General Meeting.

In addition, we resolved to engage PwC to audit MAN SE’s 2018 financial statements and its risk early recognition system — provided the 2018 Annual General Meeting elects PwC as the auditors for the year under review.

A diversity concept for the Supervisory Board and the Executive Board was also resolved at the meeting.

Supervisory Board meeting on May 16, 2018

At the meeting following the Annual General Meeting, we dealt, in particular, with business developments in the MAN Group and the status of the programs to improve efficiency.

Supervisory Board meeting on July 25, 2018

The July meeting focused on the discussion of the business performance of MAN SE in the first half of the year and on the corporate strategies of MAN Energy Solutions SE and Renk AG.

Supervisory Board meeting on November 22, 2018

In addition to business developments and the 2018–2022 corporate planning, we held in-depth discussions of the corporate strategy of MAN Truck & Bus AG and the status of the restructuring of MAN Energy Solutions SE.

The Supervisory Board also discussed corporate governance matters.

The Chief Compliance Officer reported in person on the compliance organization and its activities.

We also addressed the settlement between MAN SE and D&O insurers in connection with the Ferrostaal compliance case. Following an in-depth examination, we approved the settlement.

We also adopted a resolution relating to the rotation of the auditors from fiscal year 2020 onward.

Supervisory Board conference call on December 13, 2018
During the conference call, we dealt in detail with the planned sale of the Power Engineering companies to Volkswagen Klassik GmbH, a subsidiary of Volkswagen AG.

Conflicts of interest
No conflicts of interest involving members of the Supervisory Board within the meaning of section 5.5 of the German Corporate Governance Code were reported in the year under review.

Corporate governance and Declaration of Conformity
The implementation of the current version of the German Corporate Governance Code at MAN SE was a topic of the Supervisory Board meeting on November 22, 2018.

In December 2018, the Executive Board and Supervisory Board issued the annual Declaration of Conformity in accordance with section 161 of the *Aktiengesetz* (AktG — German Stock Corporation Act). This is permanently available on MAN SE's website at www.corporate.man.eu.

According to this Declaration of Conformity, MAN SE will comply with the recommendations of the German Corporate Governance Code in the version dated February 7, 2017, with the exception of section 5.3.2, paragraph 3, sentence 2 (independence of the Chairman of the Audit Committee), section 5.4.1, paragraphs 6 through 8 (disclosure in the case of election recommendations), section 5.4.6, paragraph 2, sentence 2 (performance-related Supervisory Board compensation), and section 7.1.1, sentence 2 (financial information during the year).

Detailed explanations of and the reasoning behind the departures from the recommendations of the German Corporate Governance Code can be found in the Declaration of Conformity dated December 2018.

Further information on corporate governance at MAN is available in our Corporate Governance Report, see pages 14ff. of this Annual Report.

Changes to the composition of the Supervisory Board and Executive Board
There were the following changes to the composition of the Supervisory Board in the year under review:

On application by the Executive Board, the Munich Commercial Register Court appointed Ms. Stephanie Porsche-Schröder as a member of the Supervisory Board effective January 23, 2018. MAN SE's Annual General Meeting on May 16, 2018, confirmed the election of Ms. Porsche-Schröder as a member of MAN SE's Supervisory Board for the remaining term of office of the Supervisory Board. Ms. Porsche-Schröder succeeds Dr. Dr. Christian Porsche, who stepped down from the Supervisory Board in 2017.

Mr. Oskar Ritsch resigned from the Supervisory Board with effect from midnight on March 31, 2018.

Mr. Werner Wiedemann joined the Supervisory Board effective April 1, 2018, as a replacement for Mr. Oskar Ritsch.

Mr. Matthias Gründler resigned from the Supervisory Board effective May 17, 2018.

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.

Mr. Helmut Brodrick and Mr. Werner Wiedemann left the Supervisory Board with effect from midnight on December 31, 2018.

Dr. Uwe Lauber resigned as a member of the Executive Board of MAN SE with effect from midnight on December 31, 2018.

We would like to thank the members who departed from the Supervisory Board and the Executive Board during the year under review for their service to the Company.

Audit of the annual and consolidated financial statements

In accordance with our proposal, the Annual General Meeting of MAN SE on May 16, 2018, elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, as the auditors for fiscal 2018. The Supervisory Board issued the concrete audit engagement letter to PwC in line with the Audit Committee's recommendations and specified the areas of emphasis of the audit.

The auditors issued unqualified audit opinions on the annual financial statements of MAN SE and the consolidated financial statements for the MAN Group, plus the Combined Management Report.

In addition, the auditors assessed the internal control system and the risk management system and concluded that the Executive Board had taken the measures required by section 91 (2) of the AktG to identify at an early stage any risks that could endanger the Company's continuing existence.

The members of the Audit Committee and the members of the Supervisory Board received the documents relating to the annual financial statements and the audit reports prepared by the auditors in good time for the meetings of these committees on February 19, 2019.

At both meetings, the auditors reported in detail on the key findings of their audits and were available to provide additional information.

Based on the audit reports by the auditors and its discussion with them as well as its own findings, the Audit Committee prepared the Supervisory Board's examination of the consolidated financial statements and the annual financial statements of MAN SE, as well as the Combined Management Report, and reported on them in the Supervisory Board meeting on February 19, 2019. After this, it recommended that the Supervisory Board approve the annual financial statements.

We examined these documents in depth in the knowledge of, and taking into account, the report by the Audit Committee and the auditors' report, and in our discussions with these. We came to the conclusion that these reports are due and proper and that the assessments by the Executive Board of the position of the Company and the Group presented in the Combined Management Report correspond to those of the Supervisory Board.

We therefore concurred with the results of the audit by the auditors in our meeting on February 19, 2019, and approved the annual financial statements prepared by the Executive Board and the consolidated financial statements. The annual financial statements are thus adopted.

The Supervisory Board would like to thank all the members of the Executive Board and the management teams, as well as the employees of the MAN Group companies, for their achievements and active commitment. We also wish to extend our thanks to the employee representatives for their objective and constructive cooperation in the interests of our Company.

On behalf of the Supervisory Board:
Munich, February 19, 2019

Andreas Renschler
Chairman of the Supervisory Board

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH SECTIONS 289f AND 315d OF THE HGB INCLUDING THE CORPORATE GOVERNANCE REPORT [1]

At MAN, management and supervision of the Company and the Group is focused on ensuring sustained value creation and an appropriate profit in line with the principles of the social market economy.

Corporate governance is shaped by the applicable laws, in particular the provisions of German stock corporation law, by our Articles of Association and internal regulations, and by nationally and internationally recognized standards of good and responsible corporate governance. The German Corporate Governance Code (the Code) represents the statutory provisions for the governance of German stock corporations that apply to MAN and provides recommendations and suggestions for applying corporate governance at MAN in accordance with recognized standards.

On April 26, 2013, MAN SE, as the controlled company, entered into a domination and profit and loss transfer agreement (DPLTA) with Truck & Bus GmbH (now TRATON SE), a wholly owned subsidiary of Volkswagen AG, as the controlling company. Profit transfer occurred for the first time in fiscal year 2014, whereas the part of the intercompany agreement relating to control (domination) became effective on July 16, 2013, when it was entered in MAN SE's commercial register.

The aforementioned domination and profit and loss transfer agreement was terminated by the Executive Board of TRATON AG (now TRATON SE) on August 22, 2018, with effect from midnight (00:00) on January 1, 2019, by way of notice of extraordinary termination, with the result that profit was transferred for the last time for fiscal year 2018.

The ethical guidelines that apply to the MAN Group are laid out in the MAN Code of Conduct, which is available on our website at **www.corporate.man.eu** under the "Compliance & Risk" heading.

[1] The Corporate Governance Statement in accordance with sections 289f and 315d of the *Handelsgesetzbuch* (HGB – German Commercial Code) is part of the Combined Management Report and is not included in the audit.

[2] Also the Corporate Governance Report of the Executive and Supervisory Boards in accordance with section 3.10 of the German Corporate Governance Code in the version dated February 7, 2017

(1) Corporate governance at MAN [2]

Both MAN's Executive Board and its Supervisory Board have addressed the corporate governance system and compliance with the recommendations and suggestions contained in the Code in detail. They are aware that good and transparent corporate governance that complies with both national and international standards is of central importance for ensuring responsible management with a long-term focus.

Declaration of Conformity

In December 2018, the Executive Board and the Supervisory Board issued the Declaration of Conformity reproduced in the following. The reasons for the exceptions disclosed are given in the text of the declaration.

"The Executive and Supervisory Boards of MAN SE hereby declare that the recommendations of the Government Commission on the German Corporate Governance Code in the version dated February 7, 2017, published by the German Ministry of Justice in the official section of the *Bundesanzeiger* (the Federal Gazette) on April 24, 2017, were complied with in the period since the last Declaration of Conformity was issued in December 2017 and will continue to be complied with except for section 5.3.2, paragraph 3, sentence 2 (independence of the Chairman of the Audit Committee), section 5.4.1, paragraphs 6 through 8 (disclosure in the case of election recommendations), section 5.4.6, paragraph 2, sentence 2 (performance-related Supervisory Board compensation), and section 7.1.1, sentence 2 (financial information during the year).

1. The recommendation in section 5.3.2, paragraph 3, sentence 2 of the Code is not followed only to the extent that the former Chairman of the Audit Committee of the Supervisory Board, Mr. Matthias Gründler, and the current Chairwoman of the Audit Committee, Ms. Annette Danielski, cannot be considered "independent" within the meaning of section 5.4.2, sentence 2 of the Code in view of their functions as a Member of the Management of what was formerly Volkswagen Truck & Bus GmbH and as Head of Group Finance at TRATON AG, respectively.

   For the Executive Board and Supervisory Boards of MAN SE, it is most important that the Chairperson of the Audit Committee possess the required expert knowledge of the industry. It is not clear why an appointment or function at a controlling shareholder under which the criterion of "independence" pursuant to the definition in section 5.4.2, sentence 2 of the Code is not fulfilled should rule out a position as Chairperson of the Audit Committee.

2. With regard to the recommendation in section 5.4.1, paragraphs 6 through 8 of the Code that certain circumstances be disclosed by the Supervisory Board when making election recommendations to the Annual General Meeting, the requirements of the Code are vague and the definitions unclear. For this reason, we have declared a departure from the Code in this respect as a precaution. Notwithstanding the above, the Supervisory Board will endeavor to meet the requirements in section 5.4.1, paragraphs 6 through 8 of the Code.

3. The compensation of the Supervisory Board is regulated by the shareholders in Article 12 (2) of the MAN SE Articles of Association and is linked to the net income for the year, among other things. We assume that the variable compensation component will be oriented toward the sustainable growth of the enterprise within the meaning of section 5.4.6, paragraph 2, sentence 2 of the Code. However, as it cannot be ruled out that other views will be taken, a departure from the recommendation in the Code is being declared as a precautionary measure.

4. The recommendation in section 7.1.1, sentence 2 (financial information during the year) is not followed, as the Executive and Supervisory Boards of MAN SE consider the obligation to publish quarterly reports that goes beyond the statutory requirement set out in the *Wertpapierhandelsgesetz* (WpHG — German Securities Trading Act) unnecessary, especially since the Volkswagen AG quarterly reports also contain a summary of the information on MAN.

The recommendation in section 4.2.3, paragraph 2, sentence 3 (variable compensation with forward-looking characteristics) was not followed only to the extent that the assessment basis for variable compensation components did not have essentially forward-looking characteristics, since the compensation system was based on the recommendations of the Code in the version dated May 5, 2015. Following the departure of Mr. Schelchshorn from the Executive Board, MAN SE reimbursed, on a pro rata basis, the remuneration paid to an Executive Board member for the last time in fiscal 2017; since Executive Board members receive no further remuneration from MAN SE, the departure from the recommendation no longer applies."

Annual General Meeting

The Annual General Meeting is the forum where MAN shareholders can exercise their voting rights, obtain information, and engage in a dialogue with the Executive and Supervisory Boards.

In organizing and conducting its Annual General Meeting, MAN SE aims to provide all shareholders with prompt, comprehensive, and effective information both before and during the event. The invitation to the Annual General Meeting is published in the *Bundesanzeiger* (the Federal Gazette) and is accessible to our shareholders and all other interested parties on the MAN website, together with all reports and documents relating to the Annual General Meeting.

To make it easier for shareholders to exercise their voting rights in person or by appointing a proxy, they may authorize a bank, shareholders' association, or another person to represent them, or they can authorize an MAN employee to exercise their voting rights as their proxy.

Executive Board and Supervisory Board

MAN SE has a two-tier structure comprising an Executive Board and a Supervisory Board. Both governing bodies work closely together for the benefit of the Company and seek to achieve a sustained increase in enterprise value for its shareholders.

The Executive Board consisted of four members up until December 31, 2018, and consists of three members as of January 1, 2019. Please refer to the "Governing Bodies" section in the Annual Report for information about its composition. The Executive Board is responsible for performing managerial and operational tasks. Its responsibilities extend, in particular, to the MAN Group's strategic focus, which it agrees with the Supervisory Board. The Executive Board is also responsible for central financing of the Group, the development and deployment of managers, and the preparation of the half-yearly report and the annual financial statements. In addition, it ensures compliance with legislation, official regulations, and internal policies.

The various tasks are allocated to the individual Executive Board functions in accordance with the list of responsibilities. The full Executive Board addresses all key decisions and measures; the Executive Board's Rules of Procedure define the decisions and measures that require the approval of the full Executive Board. Meetings of the full Executive Board are held once a month as a rule, and additionally as needed. The Executive Board reports to the Supervisory Board. It consults the Supervisory Board on decisions of fundamental importance. The Executive Board also ensures open and transparent corporate communications.

The Supervisory Board has an oversight and advisory role. Certain important transactions laid down by law, the Articles of Association, and the Supervisory Board's Rules of Procedure require the Supervisory Board's approval. Please refer to the Report of the Supervisory Board for further information on the duties performed by the Supervisory Board and its cooperation with the Executive Board.

MAN SE's Supervisory Board has equal numbers of shareholder and employee representatives. As a matter of principle, the eight shareholder representatives are elected by the Annual General Meeting and the eight employee representatives are appointed by the SE Works Council in accordance with the provisions of the Agreement on Arrangements for Employee Involvement in the SE dated February 18, 2009. Since January 1, 2016, the Company must also comply with the statutory minimum percentage of 30% women and 30% men when electing a new member or new members to the Supervisory Board.

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

- reserving at least two Supervisory Board positions — one of which is on the shareholder side — for persons who especially embody the criterion of internationality;

- reserving at least two Supervisory Board positions on the shareholder side for persons with no potential conflicts of interest who are independent within the meaning of section 5.4.2 of the Code;

- in addition, proposals for election should not, as a rule, include any persons who have reached the age of 70 at the time of the election or who have been a member of the Company's Supervisory Board for more than 20 years.

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

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

In accordance with the profile of skills and expertise developed by the Supervisory Board, MAN SE's Supervisory Board should collectively have the following skills and expertise:

- knowledge and experience of the Company itself;

- experience and knowledge in the areas of production, marketing, and sales;

- leadership or oversight experience in other medium-sized or large companies;

- experience in industries that are of importance to the MAN Group, such as the mechanical engineering, automotive, and information technology sectors;

- expertise in the areas of financial reporting or auditing.

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

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

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

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

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

Remuneration system for the Executive Board and Supervisory Board

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

Compliance/risk management

MAN SE's Executive Board established a Governance, Risk & Compliance (GRC) function as part of its responsibility for compliance and risk management as defined by the Code. This function is managed by the Head of GRC/Chief Compliance Officer of the MAN Group, who reports directly to the Chief Executive Officer of MAN SE and additionally to the Audit Committee of the Supervisory Board. The GRC organization is responsible for compliance and risk management throughout the Group. The GRC function currently has 47 employees and consists of MAN SE's central Corporate GRC Office (18 employees) and the GRC organization in the divisions (29 employees).

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

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

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

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

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

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

- The MAN Group's ethical conduct guidelines and basic compliance requirements are described in its Code of Conduct, which also spells out the corporate values and establishes guidelines for the issue of integrity. An updated version 2.0 of the MAN Group's Code of Conduct came into force effective January 1, 2018, and was rolled out to all employees worldwide.

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

- In order to ensure transparency about all of the compliance requirements applicable in the MAN Group, i.e., including those for which the central Governance, Risk & Compliance function is not responsible, a horizontal compliance risk analysis was conducted in 2018. The goal of the project was to identify clear organizational responsibilities at Group and subgroup level for 33 fields of law classified as applicable.

- The Compliance Helpdesk operated by the GRC function answered 474 questions from employees in the reporting period.

- The GRC function regularly holds classroom and online training courses on combating corruption, antitrust law, and preventing money laundering, among others. The focus in the year under review was on developing a new online course that will concentrate on preventing money laundering and terrorism financing. The course is designed to help make employees more aware of money laundering and terrorism financing issues and teach them how to handle "red flags."

- Various communication measures were taken in the reporting period to promote integrity. These include communication measures accompanying the worldwide rollout of the updated Code of Conduct to the employees, further use of the film on integrity as one of the corporate values, the development of a Dilemma Game to encourage dealing openly with risky dilemma situations in day-to-day work, publishing GRC Alerts and GRC Newsletters on current GRC and compliance issues, as well as events at the Group companies to mark International Anti-Corruption Day on December 9, 2018.

- In October, more than 130 Compliance Champions and GRC staff met for a two-day Compliance Conference in Munich. The main focus of the conference under the motto of "Driving Compliance & Integrity to the next level" was on reinforcing the Groupwide Governance, Risk & Compliance network and on developing strategies and measures to continuously enhance the compliance and integrity program.

- The Business Partner Approval Tool is used to check and approve the integrity of business partners active in the area of sales support. In total, 1,364 checks were conducted using this tool in the period under review.

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

- The "Speak up!" whistleblower portal again served to detect and prevent material risks to MAN in the reporting period. "Speak up!" is used to accept and analyze information relating to serious statutory violations, especially in the area of white-collar crime (e.g., corruption offenses, suspected money laundering activities, and terrorism financing), antitrust law, and data protection. This information is investigated in detail. Violations are dealt with and punished according to the penalties permitted under labor law. The processes for conducting internal investigations were partly restructured in the year under review. In addition, a 24/7 whistleblower hotline was launched.

- MAN is a member of Transparency International and supports the United Nations Global Compact initiative. MAN also supports the Allianz für Integrität, an initiative of the German Federal Ministry for Economic Cooperation and Development, the Deutsche Gesellschaft für Internationale Zusammenarbeit, the Federation of German Industries (BDI), as well as a large number of German companies to promote economic integrity. In order to be able to actively shape compliance issues, MAN is a member of the Deutsches Institut für Compliance (DICO), where it participates in a range of working groups.

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

Transparency and financial reporting

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

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

- In accordance with Article 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on Market Abuse (Market Abuse Regulation), persons discharging managerial responsibilities, as well as persons closely associated with them, must report dealings in MAN shares and related financial instruments to the issuer and to the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin — German Federal Financial Supervisory Authority) without undue delay. No transactions were reported in fiscal year 2018.

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

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

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

(2) Other corporate governance practices

MAN SE is the holding company and parent of the MAN Group. The Group policies constitute consistent, binding requirements for all employees of the MAN Group.

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

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

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

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

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

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

The Executive Board does not have any committees.

Working practices of the Supervisory Board committees

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

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

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

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

(4) Target for percentage of women

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

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

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

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

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

(5) Disclosures on compliance with the minimum percentage of female and male members of the Supervisory Board

In accordance with section 17 (2) of the *SE-Ausführungsgesetz* (SEAG — German SE Implementation Act), the Supervisory Board of a listed SE whose Supervisory Board has an equal number of shareholder and employee representatives must comprise at least 30% women and at least 30% men.

The shareholder representatives objected to the overall fulfillment of the quota. Both the shareholder and the employee representatives must therefore each appoint at least two women and two men to the Supervisory Board.

The Company’s Supervisory Board complies with these requirements.

(6) Disclosures on the diversity concept for the Executive Board and the Supervisory Board

MAN SE’s Supervisory Board resolved a diversity concept for the Supervisory Board and the Executive Board on February 28, 2018. The aim of the diversity concept is to ensure adequate diversity in terms of gender, internationality, and diverse professional backgrounds, specialist knowledge, and experience.

Diversity concept for the Executive Board

The diversity concept for the Executive Board comprises the following elements:

1. Definition of the target for the proportion of female members of the Executive Board of 0% pursuant to section 111 (5) of the AktG. However, the Supervisory Board’s long-term goal is to increase the proportion of female members of the Executive Board and it therefore supports the Executive Board’s work to increase the proportion of female members at the top executive levels in the Company.

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

3. Members of the Executive Board should have long-standing management experience and contribute as much experience as possible from a range of different professions.

4. At least two members of the Executive Board should have international management experience.

5. Among other things, the Executive Board should collectively have long-standing experience in the areas of finance and HR management.

In the case of the forthcoming appointment of a new Executive Board member, the Supervisory Board implements the diversity concept for the Executive Board by considering the requirements defined for the diversity concept when it selects suitable candidates.

In its current composition, the Executive Board complies with all requirements of the diversity concept. In particular, the Executive Board collectively meets all the specialist knowledge and experience targets laid down in the diversity concept. The defined age limit is complied with.

Diversity concept for the Supervisory Board

The diversity concept for the Supervisory Board comprises the following elements:

1. The defined goals for the composition of the Supervisory Board.

2. The profile of skills and expertise for the Supervisory Board.

3. The gender quota of 30% for the composition of MAN SE's Supervisory Board that is already imposed by law and must therefore be complied with in accordance with section 17 (2) of the SEAG.

The proposals for the election of Supervisory Board members by the Annual General Meeting comply with the statutory requirements and the standards laid down in the diversity concept. It should be noted that the Supervisory Board's proposals for election can only affect the composition of the Supervisory Board in respect of the shareholder representatives.

The composition of MAN SE's Supervisory Board is in line with the standards laid down in the diversity concept. The goals defined for the composition of the Supervisory Board, the profile of skills and expertise, and the adequate representation of women, at currently six Supervisory Board members, were achieved.

COMBINED MANAGEMENT REPORT

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COMBINED MANAGEMENT REPORT

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

THE MAN GROUP'S BUSINESS ACTIVITIES

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

The MAN Group

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

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

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

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

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

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

MAN as a part of TRATON

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

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

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

Divestment

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

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

Research and development

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

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

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

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

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

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

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

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

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

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

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

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

Key R&D figures

Research and development costs

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

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

Financial control system and value management

Internal management process within the MAN Group

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

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

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

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

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

Key performance indicators within the MAN Group

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

Operating return on sales

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

Return on investment (ROI)

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

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

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

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

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

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

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

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

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

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

Results of operations

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

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

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

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

Sales revenue by region

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

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

Operating profit

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

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

Operating return on sales

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

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

Income statement

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

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

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

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

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

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

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

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

Financial position

MAN Group funding

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

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

Cash flow

MAN consolidated statement of cash flows (key figures)

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

[1] Net of impairment reversals

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

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

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

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

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

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

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

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

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

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

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

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

Capital expenditures

Capital expenditures

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

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

Capital expenditures at MAN Truck & Bus

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

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

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

Capital expenditures at MAN Latin America

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

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

Net assets

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

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

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

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

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

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

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

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

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

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

Unrecognized assets

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

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

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

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

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

Forecast versus actual figures MAN Group

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

Forecast versus actual figures Commercial Vehicles

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

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

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

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

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

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

THE DIVISIONS IN DETAIL

MAN Truck & Bus

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

MAN Truck & Bus

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

Economic environment

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

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

Business developments

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

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

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

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

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

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

Operating profit

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

MAN Latin America

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

MAN Latin America

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

Economic environment

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

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

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

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

Business developments

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

Operating profit

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

FINANCIAL STATEMENTS OF MAN SE (HGB)

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

Business developments

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

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

Results of operations

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

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

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

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

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

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

Net assets and financial position

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

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

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

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

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

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

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

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

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

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

Report on MAN SE's risks and opportunities

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

Additional information

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

Outlook

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

REPORT ON RISKS AND OPPORTUNITIES

(INCLUDES REPORT IN ACCORDANCE WITH SECTION 289 (4) OF THE HGB)

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

Company-wide risk management system

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

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

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

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

Risk management organization

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

Organizational structure

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

Opportunity and risk management processes and standard GRC process

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

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

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

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

Reporting

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

Accounting-related risk management and internal control system

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

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

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

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

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

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

Opportunities and risks

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

Markets

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

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

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

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

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

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

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

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

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

Products

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

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

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

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

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

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

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

Processes

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

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

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

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

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

Employees

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

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

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

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

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

Finances

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

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

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

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

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

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

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

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

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

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

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

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

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

Litigation/legal proceedings

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

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

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

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

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

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

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

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

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

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

REPORT ON EXPECTED DEVELOPMENTS

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

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

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

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

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

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

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

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

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

Executive Board's sales revenue and earnings expectations

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

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

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

Uncertainties in the outlook

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

REPORT ON POST-BALANCE SHEET DATE EVENTS

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

SEPARATE NONFINANCIAL GROUP REPORT

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

REMUNERATION REPORT FOR FISCAL YEAR 2018

Executive Board remuneration

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

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

Remuneration structure and components

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

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

A) Fixed remuneration

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

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

B) Variable remuneration

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

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

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

The target areas are:

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

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

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

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

Target achievement is calculated as follows:

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

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

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

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

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

Target achievement is calculated as follows:

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

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

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

C) Occupational pension system

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Supervisory Board remuneration

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

The annual remuneration comprises the following components:

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

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

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

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

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

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

Supervisory Board members' remuneration in 2018

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

Additional information

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

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

TAKEOVER-RELATED DISCLOSURES

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

Composition of subscribed capital, classes of shares

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

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

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

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

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

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

Restrictions affecting voting rights or the transfer of shares

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

Significant shareholdings in MAN SE

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

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

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

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

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

Powers of the Executive Board

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

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CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

MAN CONSOLIDATED INCOME STATEMENT

€ million	Note	2018	2017[2]
Sales revenue	[6]	12,104	11,087
Cost of sales		–9,904	–8,996
Gross profit		**2,200**	**2,091**
Other operating income[1]	[7]	426	372
Distribution expenses		–1,204	–1,203
General and administrative expenses		–645	–608
Net impairment losses on financial assets[1]	[34/35]	–20	–
Other operating expenses[1]	[8]	–425	–294
Operating profit		**332**	**358**
Share of profits and losses of equity-method investments	[17]	141	72
Interest income	[9]	36	50
Interest cost	[9]	–129	–172
Other financial result	[10]	183	19
Financial result		**231**	**–31**
Profit before tax		**562**	**327**
Income taxes	[11]	–126	–171
Current		–138	–69
Deferred		12	–103
Income from discontinued operations, net of tax	[5]	250	166
Profit after tax		**686**	**321**
of which attributable to noncontrolling interests		11	10
of which attributable to shareholders of MAN SE		**675**	**311**
Earnings per share from continuing operations in € (diluted/basic)	[12]	**2.97**	**1.06**
Earnings per share from continuing and discontinued operations in € (diluted/basic)	[12]	**4.59**	**2.12**

[1] There has been a change to the structure of operating profit. Starting in fiscal year 2018, net impairment losses on financial assets are reported separately (see explanations of changes in accounting policies).
[2] Prior-year figures were adjusted (see explanations of changes in accounting policies).

MAN CONSOLIDATED RECONCILIATION OF COMPREHENSIVE INCOME FOR THE PERIOD

€ million	Note	2018	2017
Profit after tax		**686**	**321**
Items that will not be reclassified to profit or loss			
Pension plan remeasurements	[26]	1	66
Accumulated other comprehensive income from equity-method investments	[17]	0	–2
Other comprehensive income for the period from the fair value measurement of other equity investments (equity instruments)	[34/35]	–370	–
Deferred taxes		5	–12
Items that will be reclassified subsequently to profit or loss			
Currency translation differences		–71	–209
Measurement of marketable securities and financial investments	[34/35]	–	335
Change in fair values of derivatives (hedging instruments)	[34/35]	–33	–6
Hedging expenses	[34/35]	1	–
Other comprehensive income for the period from equity-method investments	[17]	0	–17
Deferred taxes		11	–3
Other comprehensive income		**–456**	**151**
Total comprehensive income		**230**	**472**
of which attributable to noncontrolling interests		9	11
of which attributable to shareholders of MAN SE		**221**	**462**

See also note (24) for additional information on equity

MAN CONSOLIDATED BALANCE SHEET

Assets

€ million	Note	12/31/2018	12/31/2017
Intangible assets	[15]	1,970	2,321
Property, plant, and equipment	[16]	2,053	2,639
Equity-method investments	[17]	738	522
Other equity investments	[18]	2,818	3,213
Assets leased out	[19]	3,847	3,504
Noncurrent income tax receivables		27	21
Deferred tax assets	[11]	451	575
Other noncurrent financial assets	[22]	37	34
Other noncurrent receivables	[23]	500	563
Noncurrent assets		**12,442**	**13,391**
Inventories	[20]	2,305	3,397
Trade receivables	[21]	1,447	2,171
Current income tax receivables		38	61
Other current financial assets	[22]	2,173	136
Other current receivables	[23]	197	344
Cash and cash equivalents	[33]	1,150	782
Current assets		**7,310**	**6,892**
		19,751	**20,282**

Equity and Liabilities

€ million	Note	12/31/2018	12/31/2017
Subscribed capital		376	376
Capital reserves		795	795
Retained earnings		3,864	3,904
Accumulated other comprehensive income		649	945
Equity attributable to shareholders of MAN SE		**5,685**	**6,020**
Noncontrolling interests		0	104
Total equity	[24]	**5,685**	**6,125**
Noncurrent financial liabilities	[25]	1,258	1,490
Pensions and other post-employment benefits	[26]	488	590
Deferred tax liabilities	[11]	190	329
Noncurrent income tax provisions		15	108
Other noncurrent provisions	[27]	561	733
Other noncurrent financial liabilities	[28]	1,829	1,741
Other noncurrent liabilities	[29]	1,103	1,202
Noncurrent liabilities and provisions		**5,444**	**6,193**
Current financial liabilities	[25]	2,978	1,611
Trade payables		1,437	1,925
Prepayments received		–	655
Current income tax payables		181	46
Current income tax provisions		137	129
Other current provisions	[27]	589	1,036
Other current financial liabilities	[28]	1,700	1,110
Other current liabilities	[29]	1,600	1,452
Current liabilities and provisions		**8,622**	**7,964**
		19,751	**20,282**

MAN CONSOLIDATED STATEMENT OF CASH FLOWS

€ million	2018	2017
Cash and cash equivalents at beginning of period	**782**	**796**
Profit before tax	562	327
Income taxes refunded/paid	43	–65
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property [1]	290	252
Amortization of, and impairment losses on, capitalized development costs [1]	99	84
Impairment losses on equity investments	6	0
Depreciation of assets leased out [1]	636	610
Change in pension provisions	17	23
Profit/loss on disposal of noncurrent assets and equity investments	20	–13
Share of losses of equity-method investments	–233	–66
Other noncash income and expense	–5	–20
Change in inventories	–240	–194
Change in receivables	–160	–238
Change in liabilities and prepayments received (excluding financial liabilities)	545	542
Change in provisions	44	–75
Change in assets leased out	–1,010	–865
Net cash used in operating activities – discontinued operations	–72	–34
Net cash provided by operating activities	**544**	**268**
Payments to acquire property, plant, and equipment and intangible assets (excluding capitalized development costs)	–428	–386
Additions to capitalized development costs	–255	–273
Payments to acquire other investees	0	–1
Proceeds from the disposal of subsidiaries, net of cash disposed	395	0
Proceeds from the disposal of other investees	0	7
Proceeds from asset disposals (other than assets leased out)	53	25
Change in loans and time deposits	6	296
Net cash used in investing activities – discontinued operations	–184	–181
Net cash used in investing activities	**–413**	**–514**
Loss absorption/profit transfer	–193	99
Repayment of bonds	–	–750
Change in miscellaneous financial liabilities	456	921
Net cash used in financing activities – discontinued operations	–7	–8
Net cash provided by financing activities	**256**	**262**
Effect of exchange rate changes on cash and cash equivalents	–20	–30
Change in cash and cash equivalents	**368**	**–14**
Cash and cash equivalents at the end of period	**1,150**	**782**

[1] Net of impairment reversals
See also note (33) for additional information on the statement of cash flows

MAN CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ million	Subscribed capital	Capital reserves	Retained earnings	Accumulated other comprehensive income	Equity attributable to shareholders of MAN SE	Noncontrolling interests	Total
Balance at December 31, 2016	**376**	**795**	**3,786**	**795**	**5,752**	**98**	**5,850**
Profit after tax	–	–	311	–	311	10	321
Other comprehensive income	–	–	–	150	150	1	151
Total comprehensive income	–	–	311	150	462	11	472
Dividends allocated to noncontrolling interests	–	–	–	–	–	–4	–4
Profit transfer to TRATON SE	–	–	–193	–	–193	–	–193
Other changes	–	–	0	0	1	–	0
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	–	–	–9	2	–7	1	–7
Balance at January 1, 2018	**376**	**795**	**3,894**	**948**	**6,013**	**105**	**6,118**
Profit after tax	–	–	675	–	675	11	686
Other comprehensive income	–	–	–	–454	–454	–2	–456
Total comprehensive income	–	–	675	–454	221	9	230
Dividends allocated to noncontrolling interests	–	–	–	–	–	–4	–4
Profit transfer to TRATON SE	–	–	–548	–	–548	–	–548
Other changes	–	–	–156	155	–1	–110	–112
Balance at December 31, 2018	**376**	**795**	**3,864**	**649**	**5,685**	**0**	**5,685**

MAN NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

1 General principles

MAN SE (referred to in the following as MAN or MAN SE) is a listed corporation headquartered in Munich, Germany, and entered in the commercial register at the Munich Local Court under no. HRB 179426. The MAN Group is one of Europe's leading commercial vehicle groups. Its product portfolio comprises vans, trucks, buses, and diesel and gas engines, as well as associated services.

In compliance with section 315e (1) of the *Handelsgesetzbuch* (HGB — German Commercial Code), the accompanying consolidated financial statements of MAN SE for the fiscal year January 1 to December 31, 2018, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as adopted by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union. The Executive Board prepared these consolidated financial statements on February 8, 2019, and resolved to authorize them for submission to the Supervisory Board.

MAN SE is a subsidiary of TRATON SE (formerly Volkswagen Truck & Bus GmbH, Volkswagen Truck & Bus AG, and TRATON AG), Munich, a wholly owned direct subsidiary of Volkswagen Aktiengesellschaft, Wolfsburg (Volkswagen AG). TRATON SE holds an 86.87% interest in MAN SE's capital. MAN SE is included in Volkswagen AG's consolidated financial statements, which are published in the *Bundesanzeiger* (the Federal Gazette).

The consolidated financial statements have been prepared in euros (€), the Group's functional currency. All amounts are shown in millions of euros (€ million) unless otherwise stated. All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

2 Consolidation and measurement of investees

a) Investees

MAN SE's investees comprise subsidiaries, joint ventures, associates, and financial investments.

All significant German and non-German subsidiaries that are controlled directly or indirectly by MAN SE are included in the consolidated financial statements. Control exists if MAN SE obtains power over the potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and is able to influence those returns. Subsidiaries whose business activities have been suspended or are minimal and that are insignificant individually and in the aggregate for the presentation of a true and fair view of the MAN Group's net assets, financial position, results of operations, and cash flows are not consolidated. They are reported in the consolidated financial statements at their cost, net of any impairment loss required to be recognized.

Joint ventures are investees over which MAN SE has joint control with one or more partners and has rights to the net assets. Joint control is always established by a contractual arrangement.

Associates are investees over which MAN SE can exercise significant influence by virtue of its power to participate in the associate's financial and operating policies. There is a rebuttable presumption that significant influence can generally be presumed when MAN holds between 20% and 50% of the voting rights. Significant associates and joint ventures are measured using the equity method. Insignificant associates and joint ventures are generally required be recognized.

All other investees are financial investments.

b) Basis of consolidation

Consolidated subsidiaries

In addition to MAN SE, all significant subsidiaries are consolidated in the consolidated financial statements. Subsidiaries that are acquired during the fiscal year are consolidated from the date when control exists. Companies that are disposed of in the fiscal year are deconsolidated from the date on which control no longer exists.

Number of companies consolidated

	Germany	Other countries	Total
Consolidated as of December 31, 2017	**20**	**81**	**101**
Initially consolidated in fiscal 2018	–	–	–
Deconsolidated in fiscal 2018	6	39	45
Consolidated as of December 31, 2018	**14**	**42**	**56**

The changes in the MAN Group's basis of consolidation in fiscal year 2018 resulted in particular from the sale of the Power Engineering (PE) business. This disposal group includes the companies of the former segments MAN Energy Solutions (formerly MAN Diesel & Turbo) and Renk, as well as HABAMO Verwaltung GmbH & Co. Objekt Sterkrade KG. See note (5) for further information. Other changes in the basis of consolidation included the deconsolidation of the business operations of MAN Truck & Bus in India and an intragroup merger.

The list of the MAN Group's shareholdings within the meaning of section 313 (2) of the HGB is presented on pages 145ff.

The following consolidated German companies made use of the exemption under section 264 (3) of the HGB or section 264b of the HGB:

- MAN HR Services GmbH, Munich
- GETAS Verwaltung GmbH & Co. Objekt Offenbach KG, Pullach i. Isartal
- GETAS Verwaltung GmbH & Co. Objekt Verwaltung Nürnberg KG, Pullach i. Isartal
- GETAS Verwaltung GmbH & Co. Objekt Ausbildungszentrum KG, Pullach i. Isartal
- MAN Grundstücksgesellschaft mbH & Co. Epsilon KG, Munich
- MAN Truck & Bus AG, Munich
- MAN Truck & Bus Deutschland GmbH, Munich
- TORINU Verwaltung GmbH & Co. Beta KG, Pullach i. Isartal
- TARONA Verwaltung GmbH & Co. Alpha KG, Pullach i. Isartal
- M A N Verwaltungs-Gesellschaft mbH, Munich
- MAN Service und Support GmbH, Munich
- KOSIGA GmbH & Co. KG, Pullach i. Isartal
- MAN GHH Immobilien GmbH, Oberhausen.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. In the course of initial consolidation, the identified assets, liabilities, and contingent liabilities of the acquiree are recognized at fair value. Any remaining excess of cost of acquisition over the MAN Group's share of the revalued net assets of the acquiree is allocated to the relevant division of the MAN Group as the cash-generating unit and recognized separately as goodwill. The division, including allocated goodwill, is tested for impairment at least once a year and its carrying amount is written down to the recoverable amount if it is found to be impaired. If a subsidiary is disposed of, the attributable goodwill is included in the calculation of the disposal gain or loss. Any difference arising due to the acquisition of additional shares of a subsidiary that has already been consolidated is charged directly to equity. Unless otherwise stated, the share of equity attributable to direct noncontrolling interests is measured at the acquisition-date fair value of the net assets (excluding goodwill) attributable to such noncontrolling interests. Any contingent consideration is measured at its acquisition-date fair value. Subsequent changes in the fair value of contingent consideration do not adjust the acquisition-date fair value. Acquisition-related costs that are not equity transaction costs are not added to the purchase price, but instead recognized as expenses in the period in which they are incurred.

c) Equity-method investments

Equity-method investments include associates and joint ventures. Associates and joint ventures are initially measured at cost. In subsequent periods, the MAN Group's share of profits and losses generated after acquisition is recognized in the income statement. Other changes in the equity of associates and joint ventures, such as currency translation differences, are recognized in other comprehensive income. Intercompany profits or losses from transactions by Group companies with associates and joint ventures are eliminated ratably in the profit or loss of the Group companies. If there are indications that the carrying amount may be impaired, equity-method investments are tested for impairment; any impairment loss is recognized in the income statement.

Goodwill arising from the acquisition of an associate or joint venture is included in the carrying amounts of investments in associates or joint ventures.

d) Financial investments

Financial investments are measured at fair value. All changes in fair value are recognized in accumulated other comprehensive income.

e) Currency translation

Financial statements of subsidiaries and associates in countries outside the eurozone are translated using the functional currency method. The functional currency of subsidiaries is the currency of the primary economic environment in which they operate and is almost always their local currency. The functional currency of certain subsidiaries is the euro, rather than their local currency.

Financial statements are translated using the modified closing rate method, under which balance sheet items (with the exception of equity) are translated at the closing rate, while income statement items are translated at weighted average exchange rates for the year. With the exception of income and expenses recognized directly in equity, equity is translated at historical exchange rates. The resulting currency translation differences are recognized as a separate item in other comprehensive income until the disposal of the subsidiary.

3 New and revised accounting pronouncements

a) New accounting pronouncements applied

MAN has applied all accounting pronouncements adopted by the EU and required to be applied for periods beginning on or after January 1, 2018.

Since January 1, 2018, entities have had to apply amendments to IAS 40 (Investment Property) that clarify when an investment property falls within the scope of IAS 40 or is no longer covered by that standard. Additionally, amendments to IFRS 1 and IAS 28 by the International Accounting Standards Board as part of the Annual Improvement Project 2016 have had to be applied since January 1, 2018. Short-term exemptions in IFRS 1 (First-time Application of IFRSs) for first-time adopters of IFRSs were deleted. A clarification for investment companies was added to IAS 28 (Investments in Associates and Joint Ventures).

IFRS 2 (Share-based Payment) was amended effective January 1, 2018. These amendments clarify the classification and measurement of share-based payment transactions.

Amendments to IFRS 4 (Insurance Contracts) that minimize the impact of different effective dates of IFRS 9 and IFRS 17 have been effective since January 1, 2018. In addition, IFRIC 22 (Foreign Currency Transactions and Advance Consideration), which clarifies which exchange rates must be used for foreign currency transactions with advance consideration, has been in force since January 1, 2018.

The aforementioned pronouncements do not materially affect the MAN Group's net assets, financial position, and results of operations.

IFRS 15 – Revenue from Contracts with Customers

The application of IFRS 15 has been required since January 1, 2018. For the MAN Group, this means that revenue recognition for certain types of contracts for which the transaction price is spread across multiple performance obligations will be delayed compared with the previous recognition policy. Correspondingly, a contract liability is recognized rather than other provisions.

Starting in fiscal year 2018, financing cost subsidies previously recognized in distribution expenses are recognized as sales allowances. In addition, reversals of provisions for customer rebates are reported in sales revenue rather than other operating income starting in 2018. Compared with the requirements of IAS 11, IAS 18, and the related Interpretations in force prior to IFRS 15, sales revenue in fiscal 2018 was higher by €3 million overall. The deviations in the other financial statement items as of December 31, 2018, as against the opening balance sheet as of January 1, 2018, which result from the initial application of IFRS 15, are considerably smaller, since the change would have mainly impacted the Power Engineering business sold effective December 31, 2018, see note (5).

In addition, prepayments received and other revenue-related deferral items are combined as contract liabilities under IFRS 15 in the "Other liabilities" item in the MAN Group's balance sheet. The recognition of prepayments due but not yet paid by customers in the form of cash resulted in an increase in total assets in the PE business after offsetting against related contract assets.

The MAN Group applied the modified retrospective transition method, under which the cumulative effects of the change were reported in the opening balance sheet for 2018. The following table shows the effects of the new accounting standard. The effects on the opening balance sheet as of January 1, 2018, are as follows:

€ million	12/31/2017 before adjustment	IFRS 15 adjustment	01/01/2018 after adjustment
Total assets	**20,282**	**144**	**20,426**
Trade receivables	2,171	–21	2,150
of which future PoC receivables	208	–21	187
Other financial assets	171	165	336
of which customer prepayments receivable	–	165	165
Total liabilities and provisions	**14,157**	**141**	**14,298**
Other provisions	1,770	–104	1,666
of which warranty provisions	799	–88	711
of which provisions for outstanding costs	254	–16	238
Other liabilities	2,653	900	3,553
of which deferred purchase price payments for assets leased out	1,640	–20	1,620
of which miscellaneous other liabilities	143	–109	34
of which contract liabilities	–	1,029	1,029
Prepayments received	655	–655	–
Total equity and liabilities	**6,125**	**3**	**6,128**
Retained earnings	3,904	3	3,907

IFRS 9 – Financial Instruments

IFRS 9 changes the accounting requirements for classifying and measuring financial assets, for impairment of financial assets, and for hedge accounting.

Financial assets are classified and measured on the basis of the entity's business model and the characteristics of the financial asset's cash flows. A financial asset is initially classified as "at amortized cost," "at fair value through profit or loss," or "at fair value through other comprehensive income." From now on, financial investments will always be accounted for at fair value, even if the investee is not a listed company. Provided that the investment is not held for trading, there is an option under IFRS 9 to recognize changes in fair value through other comprehensive income. The MAN Group exercises this option for all its investments. As of January 1, 2018, this resulted in a €3 million increase in the carrying amount of financial investments, which was recognized directly in equity. In the event of a subsequent derecognition, e.g., when an investee is sold, the accumulated changes in fair value from financial investments will no longer be reclassified to profit or loss. The classification and measurement of financial liabilities under IFRS 9 is unchanged as against the accounting requirements under IAS 39.

The basis for measuring impairment losses and recognizing loss allowances will switch from an incurred credit loss model to an expected credit loss model. The MAN Group applies the simplified approach under IFRS 9 to recognizing impairment losses on trade receivables. This calculates the credit losses on individual receivables using a provision matrix containing provision rates that are classified by the number of days a receivable is past due. The change in the measurement methodology increased the loss allowance by a total of €15 million on initial application. These amounts were recognized directly in retained earnings. The increase in the loss allowance was largely a result of the requirement to also recognize a loss allowance for financial assets that are not impaired.

In the case of hedge accounting, IFRS 9 contains both extended designation options and the need to implement more complex measurement methods. In addition, IFRS 9 also eliminates the quantitative limits for effectiveness testing. The entity's reclassification practice, in particular, was impacted under IFRS 9. However, the offsetting effect of hedging transactions on operating profit remains unchanged.

This will also result in far more extensive disclosures.

The tables below show the main effects of the new accounting requirements of IFRS 9 on the classification and measurement of financial assets, and the impairment of financial assets. Hedge accounting had no effect on the opening balances as of January 1, 2018.

The MAN Group recognized the cumulative effects of the switch to the new accounting requirements in the opening balance of other comprehensive income in 2018. Prior-period amounts were not adjusted. The effects on the opening balances as of January 1, 2018, are as follows:

€ million	12/31/2017 before adjustment	IFRS 9 adjustment	01/01/2018 after adjustment
Total assets	**20,282**	**–12**	**20,270**
Noncurrent assets			
Other equity investments	3,213	3	3,216
Current assets			
Trade receivables	2,171	–14	2,157
Other current financial assets	136	–1	135
Total equity and liabilities	**20,282**	**–12**	**20,270**
Total equity	**6,125**	**–12**	**6,113**
Retained earnings	3,904	–15	3,889
Accumulated other comprehensive income	945	2	947
Noncontrolling interests	104	1	105

Financial instruments are assigned to the “at fair value,” “at amortized cost,” “derivatives included in hedging relationships,” and “not allocated to any IFRS 9 category” classes. For the class of derivatives in hedge accounting, IFRS 9 did not result in any reclassifications from or to other classes.

Under IAS 39, the “at fair value” class contained the “available-for-sale financial assets” and “financial instruments at fair value through profit or loss” categories. The available-for-sale financial assets were adjusted as follows as of January 1, 2018, following recognition of the €3 million increase in the carrying amount of financial investments. Financial instruments at fair value through profit or loss now include the investment in Scania AB, Södertälje, Sweden (Scania) and shares of unlisted companies:

€ million	Measured at fair value (IAS 39) at 12/31/2017	Reclassified from “measured at (amortized) cost”	Revalued due to fair value measurement	Reclassified to “measured at (amortized) cost”	Measured at fair value (IFRS 9) at 01/01/2018
		Carrying amount at 12/31/2017			
Noncurrent assets					
Other equity investments[1]	3,172	5	3	–	3,180

[1] IAS 39 measurement category: available-for-sale financial assets; IFRS 9 measurement category: at fair value through other comprehensive income

There were no changes in financial instruments measured at fair value through profit or loss. These relate to derivatives that are not included in hedge accounting.

Under IAS 39, the "measured at (amortized) cost" category included financial investments classified as available for sale whose fair value could not be reliably determined due to the lack of an active market and that were measured at cost, and the "loans and receivables" and "financial liabilities measured at amortized cost" measurement categories. The financial investments classified as available for sale whose fair value could not be reliably determined due to the lack of an active market and that were measured at cost were adjusted as follows as of January 1, 2018:

	Measured at (amortized) cost (IAS 39) at 12/31/2017		Reclassified from "measured at fair value"	Reclassified to "measured at fair value"		Measured at amortized cost (IFRS 9) at 01/01/2018
€ million	Carrying amount	Fair value	Carrying amount	Carrying amount	Fair value	Carrying amount
Noncurrent assets						
Other equity investments [1]	5	–	–	5	8	–

[1] IAS 39 measurement category: financial investments classified as available for sale whose fair value could not be reliably determined due to the lack of an active market and that were measured at cost

The following adjustments arose in the "loans and receivables" measurement category:

	Measured at (amortized) cost (IAS 39) at 12/31/2017	Reclassified to "not allocated to any IFRS 9 category"	Remeasured due to application of the expected credit loss model	Measured at amortized cost (IFRS 9) at 01/01/2018
€ million	Carrying amount	Carrying amount	Loss allowance	Carrying amount
Noncurrent assets				
Other financial assets [1]	29	–	0	29
Current assets				
Trade receivables [1]	2,171	–208	–12	1,951
Other financial assets [1]	87	–	–1	86
Cash and cash equivalents [1]	782	–	–	782

[1] The fair values correspond in each case to the carrying amounts. IAS 39 measurement category: loans and receivables; IFRS 9 measurement category: measured at amortized cost

There were no changes in the financial liabilities measurement category. The IAS 39 "financial liabilities measured at amortized cost" are allocated to the IFRS 9 category "measured at amortized cost."

Application of the IFRS 9 expected credit loss model resulted in the following changes in impairment losses:

€ million	Impairment losses at 12/31/2017 before adjustment	Reclassification	IFRS 9 adjustment	Impairment losses at 01/01/2018 after adjustment
Noncurrent assets				
Other financial assets [1]	–	–	0	0
Current assets				
Trade receivables [1]	123	–25	12	111
Trade receivables [2]	–	25	2	27
Other financial assets [1]	0	–	1	1
Cash and cash equivalents [1]	–	–	–	–
Total impairment losses	**124**	**–**	**15**	**140**

[1] IAS 39 measurement category: loans and receivables; IFRS 9 measurement category: measured at amortized cost
[2] Impairment losses on IFRS 15 contract assets; IAS 39 measurement category: loans and receivables; not allocated to any IFRS 9 measurement category

The carrying amount of the "available-for-sale financial assets" measurement category was reconciled as follows as of January 1, 2018:

€ million	IAS 39 carrying amount at 12/31/2017	Reclassifications	IFRS 9 adjustments	IFRS 9 carrying amount at 01/01/2018	Change in equity
Available-for-sale financial assets	**3,177**	**–**	**–**	**3,177**	**–**
Remeasurement difference under IFRS 9 category	–	–	3	3	3
Total financial assets at fair value through other comprehensive income	**3,177**	**–**	**3**	**3,180**	**3**

The carrying amount of the "financial assets at fair value through profit or loss" measurement category was reconciled as follows as of January 1, 2018:

€ million	IAS 39 carrying amount at 12/31/2017	Reclassifications	IFRS 9 adjustments	IFRS 9 carrying amount at 01/01/2018	Change in equity
Financial assets at fair value through profit or loss	**20**	**–**	**–**	**20**	**–**

The carrying amount of the "loans and receivables" measurement category was reconciled as follows as of January 1, 2018:

€ million	IAS 39 carrying amount at 12/31/2017	Reclassifications	IFRS 9 adjustment	IFRS 9 carrying amount at 01/01/2018	Change in equity
Loans and receivables	**3,068**	**–**	**–**	**3,068**	**–**
Not allocated to any IFRS 9 measurement category	–	–208	–	–208	–
Remeasurement difference under IFRS 9 category	–	–	–13	–13	–13
Total financial assets at amortized cost	**3,068**	**–208**	**–13**	**2,847**	**–13**

Other accounting policies

To make the presentation consistent with the changes resulting from IFRS 15 and to enhance comparability, the way other income from the reversal of provisions and accrued liabilities is reported was also adjusted; these items were allocated to those functions in which they were originally recognized. Prior-period amounts were adjusted accordingly. This reduced prior-period other operating income by €157 million. Cost of sales therefore declined by €138 million and distribution expenses by €19 million.

As a result of the initial application of IFRS 9, net impairment losses are reported separately starting in fiscal year 2018. This item mainly comprises impairment losses on trade receivables and their reversal, and amounted to €20 million. The impairment losses on trade receivables and their reversal recognized under IAS 39 in the prior-year period amounted to a net expense of €10 million and were reported in other operating expenses or income.

b) New or amended IFRSs not applied

In its 2018 consolidated financial statements, MAN did not apply the following accounting pronouncements that have already been adopted by the IASB, but were not yet required to be applied for the fiscal year.

Standard/ Interpretation		Issued by the IASB	Effective date[1]	Adopted by the EU	Expected effects
IFRS 3	Business Combinations: Definition of a Business	10/22/2018	01/01/2020	No	None
IFRS 9	Financial Instruments: Prepayment Features with Negative Compensation	10/12/2017	01/01/2019	Yes	None
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and Associate or Joint Venture	09/11/2014	postponed[2]	–	None
IFRS 16	Leases	01/13/2016	01/01/2019	Yes	Detailed description below
IFRS 17	Insurance Contracts	05/18/2017	01/01/2021	No	None
IAS 1 and IAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material	10/31/2018	01/01/2020	No	None
IAS 19	Employee Benefits: Plan Amendment, Curtailment or Settlement	02/07/2018	01/01/2019	No	None
IAS 28	Investments in Associates: Long-term Interests in Associates and Joint Ventures	10/12/2017	01/01/2019	No	None
IFRIC 23	Uncertainty over Income Tax Treatments	06/07/2017	01/01/2019	Yes	No material effects
	Improvements to International Financial Reporting Standards 2017[3]	12/12/2017	01/01/2019	No	None

[1] Effective date from the MAN Group's perspective
[2] On December 15, 2015, the IASB decided to postpone the effective date indefinitely.
[3] Minor amendments to a number of IFRSs (IFRS 3, IFRS 11, IAS 12, and IAS 23)

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 do not have to classify leases into finance and operating leases. Instead, they must recognize a right-of-use asset and a lease liability (in financial liabilities) for all leases in their balance sheet. There are exceptions for short-term and low-value asset leases. 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. Lessor accounting largely corresponds to the current 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 will account for leases under IFRS 16 using the modified retrospective transition method. The initial recognition of right-of-use assets and lease liabilities in the same amount will increase total assets by approximately 3% according to preliminary estimates. The increase in financial liabilities will have an adverse effect on the MAN Group's net liquidity. No material effect on equity is expected. 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 will be allocated to operating profit under IFRS 16. Interest expenses from unwinding discounted lease liabilities will be reported in the financial result. Based on the portfolio of leases as of January 1, 2019, operating profit will probably see an improvement in the high single-digit to low double-digit millions of euros.

The change in the recognition of operating lease expenses in the statement of cash flows will result in a slight improvement in net cash used in/provided by operating activities and a corresponding reduction in net cash used in/provided by financing activities.

This will also result in far more extensive disclosures.

4 Accounting policies

The presentation of assets and liabilities in the balance sheet distinguishes between current and noncurrent items. Assets and liabilities are classified as current if they will be recovered or settled within twelve months after the reporting period. Deferred tax assets and liabilities, and assets and provisions related to defined benefit pension plans, are presented as noncurrent items. The consolidated income statement has been prepared using the cost of sales (function of expense) format.

In light of the domination and profit and loss transfer agreement entered into by TRATON SE and MAN SE in fiscal year 2013, the accompanying consolidated financial statements have been prepared following appropriation of net profit by TRATON SE. The domination and profit and loss transfer agreement was terminated by the Executive Board of TRATON SE on August 22, 2018, with effect from midnight (00:00) on January 1, 2019, by way of notice of extraordinary termination.

With the exception of certain items such as financial instruments that are measured at fair value, as well as provisions for pensions and other post-employment benefits, the consolidated financial statements have been prepared under the historical cost convention.

a) Revenue recognition

Revenue is recognized when a performance obligation has been satisfied. In the case of contracts with multiple performance obligations, the transaction price is allocated to the individual performance obligations.

Revenue from the sale of products or goods is recognized when the customer obtains control of the product. This is generally at the time of delivery.

Income from sale transactions in which a Group company incurs a buyback obligation at a predetermined value is not immediately recognized in full as revenue. Instead, the difference between the selling price and the present value of the buyback price is accounted for as an operating lease and recognized as revenue on a straight-line basis over the period until the return of the item sold.

Revenue from services is recognized when the services have been rendered. In the case of long-term contracts for services, revenue is recognized on a straight-line basis over the term of the contract or, if services are not rendered on a straight-line basis, based on the stage of completion.

Warranties to customers that the product sold matches the agreed specifications are accounted for as provisions. Extended warranties, which customers can also purchase separately, are accounted for as a separate performance obligation. Revenue from extended warranties is recognized over the warranty period.

If there is an unconditional right to receive the consideration or part of the consideration although MAN has not already satisfied the performance obligation in full, it is reported under other financial assets. The related liability is reported in other liabilities.

Discounts, customer rebates, and other sales allowances reduce the transaction price. Such variable consideration is only included in the transaction price to the extent that it is highly probable that a subsequent reversal can be ruled out. MAN uses the practical expedient in IFRS 15 to account for a significant financing component only in contracts for which it is expected that the period between when control of the sold product is transferred and when the customer payment is expected is more than one year.

b) Operating expenses and income

Operating expenses are recognized when the underlying products or services are utilized. Advertising expenses and other sales-related expenses are recognized when incurred. Cost of sales comprises the production cost of products sold and the purchase cost of merchandise sold. In addition to direct material and labor costs, production cost also includes production-related indirect costs, including depreciation of production facilities. Warranty provisions are recognized in cost of sales when the products are sold. Research expenditures are recognized as expenses when incurred. Interest and other borrowing costs are generally recognized as expenses in the period in which they arise, with the exception of borrowing costs that are capitalized as part of the cost of qualifying assets. An asset is a qualifying asset if at least one year is necessary to get it ready for its intended use or sale.

Government grants for expenses incurred are recognized in other operating income for the period or in the item in which the expenses to be offset are also recognized.

c) Intangible assets

Separately purchased intangible assets are recognized at cost. Intangible assets acquired in the course of a business combination are measured at their fair value at the acquisition date.

Finite-lived intangible assets are amortized on a straight-line basis in the functional expenses over their useful lives. The amortization period for software is mainly three to five years. Licenses and similar rights are amortized over the contractual terms. Intangible assets whose useful life cannot be determined are not amortized, but are tested for impairment at least once a year. An impairment loss is recognized if the asset is found to be impaired.

Expenditures incurred as a result of developing new products and series are capitalized if completion of the products or series is technically and economically feasible, they are intended for own use or sale, the expenditures can be measured reliably, and adequate resources are available to complete the development project. Development expenditures that do not meet these criteria and all research expenditures are recognized immediately as expenses. Capitalized development costs are amortized from the date of market rollout. They are amortized on a straight-line basis over a period of five to ten years. While a development project is still in progress, the accumulated capitalized amounts are tested for impairment at least once a year.

Costs incurred to fulfil a contract are not capitalized in the MAN Group. In the MAN Group, costs to obtain a contract are only capitalized and written down by the straight-line method over the term of the contract if they are material, the underlying contract has a term of at least one year, and these costs would not have been incurred if the corresponding contract had not been entered into.

d) Property, plant, and equipment

Property, plant, and equipment is measured at cost less accumulated depreciation and any impairment losses. Investment grants are generally deducted from cost. The production cost of internally manufactured items of property, plant, and equipment comprises directly attributable production costs, proportionate production overheads, and borrowing costs attributable to the period of production in case of qualified items of property, plant, and equipment. If items of property, plant, and equipment consist of significant identifiable components with different useful lives, such components are recognized and depreciated separately.

Maintenance and repair expenditures are recognized as expenses unless required to be capitalized.

Items of property, plant, and equipment are depreciated by the straight-line method over their estimated useful lives. The useful lives of items of property, plant, and equipment are reassessed at each reporting date and adjusted if necessary. Depreciation is mainly based on the following useful lives: buildings (ten to 50 years), leasehold improvements (five to 33 years), technical equipment and machinery (three to twelve years), and other equipment, operating and office equipment (three to 15 years).

e) Investment property

Investment property consists of land and buildings held for rental and/or capital appreciation. Like items of property, plant, and equipment, it is measured at cost less accumulated depreciation and impairment losses and (except for land) depreciated by the straight-line method over its estimated useful life. The remaining useful lives of investment property are mainly between five and 25 years. The fair value of this investment property is disclosed in the notes. Fair value is estimated using internal calculations or appraisals prepared by external experts (based on recognized valuation techniques). These can be reused in subsequent years by adjusting the changing variables. This procedure involves determining the income value on the basis of the rental income, taking into account additional factors such as land value, remaining useful life, administrative and maintenance costs, and a multiplier specific to commercial property. For reasons of materiality, the disclosures on investment property are combined with the disclosures on property, plant, and equipment.

f) Assets leased out

The sale of products sold with a buyback obligation is reported under “Assets leased out” if MAN retains the opportunities and risks associated with the products. Leased items recognized as operating leases are measured at cost and written down to the residual value on a straight-line basis over the term of the lease or until they are bought back. Impairment losses identified as a result of impairment tests in accordance with IAS 36 are recognized and the depreciation rates adjusted. The forecast residual values are adjusted to include constantly updated internal and external information on residual values, depending on specific local factors and the experience gained in the marketing of used vehicles.

g) Impairment losses

An impairment test is performed if there is an indication that the carrying amounts of intangible assets, property, plant, and equipment, equity-method investments, other equity investments carried at cost, assets leased out, or other receivables may be impaired. Indefinite-lived intangible assets, intangible assets that are not yet ready for their intended use, and goodwill are tested for impairment at least once a year. In such cases, the asset’s recoverable amount is estimated to determine the amount of any impairment loss that may need to be recognized. The recoverable amount is the higher of the asset’s fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. The discount rate used is a current pre-tax market rate of interest.

If no recoverable amount can be measured for an individual asset, the recoverable amount is determined for the smallest identifiable group of assets that generate cash flows (cash-generating unit) to which the asset belongs. For impairment testing purposes, goodwill is allocated to the smallest cash-generating unit to which the goodwill relates. If an asset’s recoverable amount is less than its carrying amount, an impairment loss is recognized immediately in profit or loss.

If an asset’s or cash-generating unit’s recoverable amount following a recognized impairment loss is higher in a subsequent period, the impairment loss is reversed up to the amount of cost less accumulated depreciation or amortization that would have arisen without the impairment loss. Impairment losses are reversed to profit or loss. Impairment losses on goodwill can never be reversed.

h) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost comprises directly attributable production costs and proportionate fixed and variable production overheads. Overheads are mainly allocated on the basis of the normal capacity of the production facilities. Distribution expenses, general and administrative expenses, and borrowing costs are not included in the cost of inventories. Raw materials and merchandise are measured at average purchase costs.

i) Nonderivative financial instruments

Financial instruments are contracts that give rise to a financial asset of one company and a financial liability or an equity instrument of another. Nonderivative financial instruments include customer receivables, loans, financial investments, and cash and cash equivalents, as well as financial liabilities, trade payables, and liabilities from buyback obligations. Cash and cash equivalents include bank balances and highly liquid financial investments of a temporary nature that are exposed to no more than minor risks of fluctuation in value. Other financial assets and other financial liabilities also contain financial instruments that fall within the scope of IFRS 9. Nonderivative financial instruments are accounted for at the settlement date in the case of regular way purchases or sales — that is, the date on which the asset is delivered.

MAN SE operates a centralized cash management system in which the companies of the PE business formerly belonging to the MAN Group are also members. Liquidity surpluses and requirements are closed daily by MAN SE and accounted for in the MAN Group's consolidated financial statements as receivables from/liabilities to those companies. Cash pool receivables are reported in cash and cash equivalents, with liabilities reported in financial liabilities.

Nonderivative financial instruments are initially recognized at their fair value. On initial measurement, fair value generally corresponds to the transaction price, i.e., the consideration given or received.

Financial instruments at fair value through profit or loss or through other comprehensive income are recognized at their fair value, net of transaction costs. Trade receivables without any significant financing component are recognized at the transaction price.

Financial assets and financial liabilities are generally reported at their gross amounts. They are only offset if the MAN Group has a currently enforceable right to set off the recognized amounts and intends to perform the settlement.

Financial instruments are classified as financial assets, equity instruments, or financial liabilities depending on the substance of the contractual arrangement and the requirements of IAS 32.

Financial assets (liabilities) that meet the following conditions are measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Provided that financial investments (equity instruments) are not held for trading, there is an option under IFRS 9 to recognize changes in fair value through other comprehensive income (no recycling). Since the presentation in profit or loss of gains and losses from changes in the fair value of financial investments is not indicative of changes in the financial investment, the MAN Group exercises this option.

By default, all other financial assets are classified as at fair value through profit or loss.

Financial liabilities are classified into the following categories:

Financial liabilities at fair value through profit or loss:

- Only financial instruments held for trading are measured at fair value through profit or loss. No non-derivative financial instruments in the MAN Group are affected by this.

Financial liabilities measured at amortized cost:

- The MAN Group's nonderivative financial liabilities are measured at amortized cost on a regular basis.

The MAN Group does not use the fair value option for financial assets and liabilities.

The amortized cost of a financial asset or liability is the amount:

- at which a financial asset or liability is measured at initial recognition;
- minus any principal repayments and
- any write-downs for impairment or uncollectability in line with the expected credit loss model; and
- plus or minus the cumulative amortization of any difference between the original amount and the amount repayable at maturity (premium, discount), amortized using the effective interest method over the term of the financial asset or liability.

Subsidiaries or associates and joint ventures that are not consolidated due to insignificance do not fall within the scope of IFRS 9 and IFRS 7.

j) Impairment of financial instruments and contract assets

For trade receivables and contract assets, the MAN Group always recognizes a loss allowance at an amount equal to lifetime expected credit losses. These are estimated using a provision matrix, unless there is objective evidence of individual impairment. The provision matrix is based on the Group's historical loss experience, adjusted for debtor-specific factors, general economic factors, and both current and future changes in variables such as the time value of money. The provision rates depend on the number of days a receivable is past due:

- Not impaired and not past due: 1.0% of the receivable;
- Up to 30 days past due: 1.5% of the receivable;
- Between 31 and 90 days past due: 2.5% of the receivable;
- More than 91 days past due: 4.0% of the receivable.

For all other financial instruments, the MAN Group recognizes a loss allowance equal to lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If the financial instrument's credit risk has not risen significantly since initial recognition, a loss allowance equal to twelve-month expected credit losses is recognized. The extent to which lifetime expected credit losses are recognized for a financial instrument depends on the probability of a significant increase in credit risk since initial recognition. To the extent that the internal risk management and control systems do not indicate a significant increase in credit risk at an earlier point in time, there is a rebuttable presumption in the MAN Group that a significant increase in credit risk has arisen if payments are more than 30 days past due.

Financial instruments are allocated to one of the following three credit loss stages:

- Stage 1: Financial instruments at initial recognition and financial instruments whose credit risk has not increased significantly
- Stage 2: Financial instruments whose credit risk has increased significantly based on lifetime expected credit losses
- Stage 3: Credit-impaired financial instruments

The Group reviews the allocation to the various credit loss stages at each reporting date. A financial asset is credit-impaired if one or more events have occurred that negatively impact future cash flows. These include delayed payment over a certain period, the institution of enforcement measures, the threat of insolvency or overindebtedness, the application for or opening of bankruptcy proceedings, or the failure of reorganization measures. The amount of expected credit losses depends on the probability of default, the loss given default, and the exposure at the default date. If, based on the internal risk management and control systems, there is no reason to assume that a default has occurred earlier, there is a general presumption in the MAN Group that a default has occurred if payments are more than 90 days past due.

For financial assets, the expected credit loss is calculated as the difference between the contractual cash flows owed to the MAN Group and the cash flows expected by the Group. The resulting difference is discounted using the original effective interest rate.

k) Derivatives

Derivatives such as swaps, forwards, and options are used in the MAN Group to hedge foreign currency, interest rate, and commodity price risks. Derivatives are initially recognized and accounted for at each subsequent reporting date at their fair value. They are generally recognized at the trade date.

The presentation of measurement and settlement effects in the income statement depends on whether the derivative is included in a hedging relationship under IFRS 9. Derivatives that do not meet the IFRS 9 hedge accounting criteria are measured at fair value through profit or loss (referred to in the following as “derivatives not included in hedge accounting”). Depending on the underlying risk exposure, gains and losses from changes in the carrying amount of the derivative are reported in other operating income/expenses or in the financial result.

A condition for applying hedge accounting is that the hedging relationship between the hedged item and the hedging instrument is clearly documented and that there is an economic relationship between the hedged item and the hedging instrument that is not dominated by the effect of the credit risk. The hedging instruments used and the hedged items are affected by the same risk (exchange rate risk). In each hedging relationship for which hedge accounting is used, the designated amount of the hedged item corresponds to the volume of the hedging instrument. In the case of cash flow hedges, the hedging instruments are measured at fair value through other comprehensive income. Gains or losses from the remeasurement of the effective designated portion of the derivative are recognized in the “Change in the fair value of derivatives (hedging instruments)” item in accumulated other comprehensive income, whereas gains or losses from the undesignated forward element of the derivative and the cross-currency basis spread are recognized in the “Hedging expenses” item.

The amounts in accumulated other comprehensive income are reclassified to the income statement as soon as the hedged future cash flows are recognized in profit or loss. They are always reclassified to the income statement item in which the hedged item is presented. The ineffective portion of the cash flow hedge is recognized in profit or loss for the period.

The Group does not use fair value hedge accounting.

l) Income taxes

Income taxes contain current and deferred income tax liabilities that are calculated on the basis of the tax laws in the relevant jurisdiction in which the MAN Group operates, including tax charges due to the MAN Group's membership of the tax group of Volkswagen AG until December 31, 2018. Provisions are recognized for potential tax risks based on the best possible estimate. Income tax provisions also contain amounts for interest on taxes owed and any surcharges that are expected to lead to a future liability.

Deferred tax assets and liabilities are recognized for temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated balance sheet, for tax credits, and for tax loss carryforwards. Deferred taxes are measured using the tax rates enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset where taxes are levied by the same taxation authority and relate to the same tax period.

Changes in deferred taxes in the balance sheet generally result in deferred tax income or expense. If the change in deferred taxes results from items recognized in other comprehensive income, the change in deferred taxes is also recognized in other comprehensive income.

m) Pensions and other post-employment benefits

Pension obligations from defined benefit plans are determined using the projected unit credit method, under which the future defined benefit obligation is measured on the basis of the proportionate benefit entitlements earned by the end of the reporting period and discounted to its present value. Measurement reflects assumptions about the future development of certain parameters such as pay increases and employee fluctuation.

Pension provisions are reduced by the fair value of plan assets used to cover benefit obligations. If plan assets exceed the defined benefit obligation, the excess is only recognized as an asset to the extent that it results in a refund from the plan or the reduction of future contributions.

The current service cost, which represents the entitlements acquired by active employees in the fiscal year in accordance with the benefit plan, is reported in the functional expenses in the income statement. Net interest income or expense results from multiplying the net defined benefit asset or liability by the discount rate and is reported in interest cost.

Remeasurements of the net defined benefit asset or liability comprise actuarial gains and losses resulting from differences between the actuarial assumptions made and what has actually occurred, or changes in actuarial assumptions, as well as the return on plan assets, excluding amounts included in net interest income or expense. Remeasurements are recognized in other comprehensive income, net of deferred taxes.

Payments for defined contribution plans are recognized in the functional expenses in the income statement.

n) Share-based payment

At the end of 2018, the remuneration system in the PE business was modified by the introduction of a Performance Share Plan with a forward-looking three-year term (share-based payment). On the date this remuneration component is granted, the annual target amount is converted into Performance Shares on the basis of the initial reference price of Volkswagen's preferred shares and allocated to the beneficiary purely as an input variable. A cash settlement is made after the end of the three-year term of the Performance Share Plan. The payment amount corresponds to the number of specified Performance Shares, multiplied by the closing reference price at the end of the three-year period, plus a dividend equivalent for the relevant term. The payment amount under the Performance Share Plan is limited to 200% of the target amount. Following the sale of the PE business as of the end of December 31, 2018, this remuneration system is no longer used in the MAN Group. During the period in which it was used, it did not materially affect the MAN Group's net assets, financial position, and results of operations.

The obligations under this remuneration system arise as soon as MAN and the relevant beneficiary have reached a common understanding of the share-based payment. If this obligation is subject to an approval procedure, the amount is granted as soon as the approval has been issued. The obligations are accounted for as a cash-settled plan. Such cash-settled plans are measured at fair value over their term. Fair value is determined using a recognized valuation technique. As part of the personnel expenses, the remuneration expense is recognized over the vesting period.

o) Other provisions

Other provisions are recognized for all identifiable risks and uncertain obligations that arise from past events, whose settlement is expected to result in an outflow of resources embodying economic benefits, and where the amount of the obligation can be estimated reliably. They are measured in the amount that represents the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is material, the provision is recognized at its present value. Discounting uses market rates of interest. If some or all of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset if it is virtually certain that it will be received.

The carrying amounts of provisions are regularly reviewed and adjusted to reflect new knowledge or changes in circumstances. If a new estimate results in a reduction in the amount of the obligation, the provision is reversed in the corresponding amount and the income recognized in the income statement item in which the provision was originally recognized.

Provisions for warranties to customers that the product sold matches the agreed specifications are recognized at the time of the sale of the related products or the rendering of the related service. These provisions are measured primarily on the basis of past experience. Individual provisions are also recognized for known claims. Provisions for restructurings are recognized if there is a detailed formal plan for the restructuring that has been notified to those affected by it. Provisions for outstanding costs and for miscellaneous obligations are measured at their expected amounts, usually in the amount of the expected production cost still to be incurred. Provisions for expected losses from onerous contracts are recognized if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

p) Contingent liabilities

If the criteria for recognizing a provision are not met, but the outflow of financial resources is not improbable, such obligations are disclosed in the Notes to the Consolidated Financial Statements (see “Contingent liabilities and commitments”). Contingent liabilities are only recognized as a provision once the obligations are more certain, i.e., the outflow of financial resources has become probable and their amount can be reliably estimated.

q) Noncurrent assets held for sale and discontinued operations

These include both individual noncurrent assets and groups of assets, together with liabilities directly associated with those assets (disposal groups), if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Noncurrent assets classified as held for sale, either individually or as part of a disposal group, are presented separately within current assets in the balance sheet. They are measured at the lower of their carrying amount and fair value less costs to sell, and are no longer depreciated or amortized. If there is any subsequent increase in fair value less costs to sell, a remeasurement gain is recognized. The remeasurement gain may not exceed the cumulative impairment losses already recognized for that asset.

A discontinued operation is a component of an entity that represents a major line of business of the MAN Group and that is classified as held for sale or has been disposed of. The assets and liabilities of a discontinued operation are classified as held for sale in the balance sheet until the disposal is completed, and are measured at the lower of their carrying amount and fair value less costs to sell. Gains or losses recognized on measurement at fair value less costs to sell, gains or losses on the disposal, and the post-tax profit or loss of the discontinued operation are presented separately in the income statement as "Income/loss from discontinued operations, net of tax." Prior-period amounts in the income statement and the statement of cash flows are adjusted accordingly. With the exception of note (5), disclosures in the Notes to the Consolidated Financial Statements — to the extent that they relate to the consolidated income statement and the consolidated statement of cash flows — refer to continuing operations, unless an IFRS requires the items concerned to be included in discontinued operations or there is a disclosure to the contrary.

r) Prior-period information

Please refer to notes (3) and (5) for information on adjusted prior-period amounts.

s) Estimates and management's judgment

Preparation of the consolidated financial statements requires management to make estimates and exercise a degree of judgment in certain matters. The estimates applied were made on the basis of historical data and other relevant factors, including the assumption of the Group as a going concern. All estimates and assumptions represent the best of management's knowledge and belief in order to convey a true and fair view of the Group's net assets, financial position, and results of operations. Although estimation uncertainties are adequately reflected in the carrying amounts of assets and liabilities, future events may differ from these estimates and may materially affect the Group's net assets, financial position, and results of operations. Estimates and assumptions are continuously reviewed.

The estimates and assessments by management were based primarily on assumptions about general economic developments, trends in the relevant markets, and prevailing legal conditions. These and other assumptions are outlined in detail in the Report on Expected Developments, which is part of the Combined Management Report.

The accounting assumptions applied to the following matters at the end of the reporting period are of particular significance:

The goodwill impairment tests to be performed at least once a year require an estimation of future cash flows and their discounting, among other factors. Such cash flows are based on forecasts contained in financial plans approved by management, see note (15). Other material assumptions relate to the weighted average cost of capital and to tax rates. Equally, if intangible assets, items of property, plant, and equipment, equity-method investments, other equity investments carried at cost, assets leased out, or other receivables are tested for impairment, the measurement of the recoverable amount of the assets entails estimates by management.

Estimates of the useful life of finite-lived assets are based on past experience. If a review of the useful life results in a change in the estimate, the residual useful life is adjusted and an impairment loss is recognized, if necessary. Measurement of assets leased out additionally depends on the residual value of vehicles leased out after expiration of the lease term. Depending on the extent to which buy-back rights are exercised and on the development of resale prices, the actual expenses incurred may differ from the expected risks.

Estimating the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. As far as possible, estimates are derived from past experience. In addition, comprehensive forecasts and estimates are used to determine the carrying amounts of financial investments recognized at fair value for which there are no quoted market prices.

Pensions and other post-employment benefits are measured using actuarial techniques. Such measurements are based primarily on assumptions relating to discount rates, pay and pension trends, and mortality. These actuarial assumptions may differ considerably from actual developments because of variations in the market and economic environment, leading to material changes in pensions and other post-employment benefits.

Because the Group operates in many countries, it is subject to a variety of tax laws in a large number of jurisdictions. The expected current income taxes and the deferred tax assets and liabilities must be determined for each tax entity. Among other things, this requires assumptions about the interpretation of complex tax regulations and the ability to generate sufficient taxable income, depending on the tax type and tax jurisdiction involved. Any variance between these assumptions and the actual outcome of such tax uncertainties may affect tax expense and deferred taxes. Uncertain recognized income tax items are based on a best estimate of the probable tax payment.

Depending on the underlying transaction, the measurement of other provisions and similar obligations may be complex and associated with a considerable degree of estimation uncertainty. Management's assumptions about the timing and amount of settlement are based on historical data, available technical data, estimates of cost trends and potential warranty claims, discount rates, possible recoverable amounts, and other factors. The measurement of restructuring provisions is based on estimates and assumptions regarding the amount of severance payments, the effects of onerous contracts, the timeline for the implementation of measures, and, consequently, the timing of the expected payments. The measurement assumptions are regularly reviewed as the restructuring program progresses. At the same time, litigation and other legal proceedings raise complex legal issues and entail numerous difficulties and uncertainties. A provision is recognized for these if it is probable that an obligation has arisen in connection with these proceedings that is likely to lead to a future outflow of resources and its amount can be estimated reliably. Assessing whether a present obligation exists at the reporting date as a result of a past event, whether a future outflow of resources is probable, and whether the obligation amount can be estimated reliably requires a substantial degree of judgment and considerable estimates by management. Future events and developments as well as changes in estimates and assumptions may lead to a different assessment at a future date. Additional expenses that could have a material effect on MAN's net assets, financial position, and results of operations therefore cannot be entirely ruled out.

5 Discontinued operations and noncurrent assets held for sale

a) Discontinued operations

On October 25, 2018, the Volkswagen Group announced its intention to sell the Power Engineering business to a subsidiary of Volkswagen AG outside the MAN Group. The Power Engineering business 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 leading global manufacturer of high-quality special gear units, propulsion components, and testing systems.

The sale closed effective the end of December 31, 2018. This is also the date on which control passed to the purchaser.

Analysis of the profit attributable to the discontinued operation

The results of the discontinued operation are reported separately in the income statement and are presented in the following (including comparatives) for the entire PE business. The assets and liabilities of the discontinued operation are not presented separately in the balance sheet as of December 31, 2018, because the Power Engineering business area was sold, and hence deconsolidated, effective December 31, 2018. The balance sheet for the period ended December 31, 2017, contains the figures for the PE business.

€ million	2018	2017
Sales revenue	**3,588**	**3,255**
Other income	173	110
Expenses	–3,519	–3,158
Profit before tax from discontinued operations	**242**	**206**
Attributable income taxes	–41	–58
Disposal gain, net of tax	48	–
Income from discontinued operations, net of tax	**250**	**149**

Analysis of the disposal gain, net of tax, attributable to the discontinued operation

Based on the net assets, the sale price was calculated at the carrying amounts of the discontinued operation. There was no need to recognize an impairment loss on reclassification as a discontinued operation.

Taking account of noncontrolling interests, the reclassification of accumulated other comprehensive income of €36 million recognized in equity, and income tax expense of €89 million on the profit from the sale, and based on consideration received of €1,980 million, there was a disposal gain of €48 million, net of tax.

Analysis of the carrying amount of the discontinued operation at the date of sale and of the outflow/inflow of cash and cash equivalents

The following table contains an overview of the assets and liabilities of the discontinued operation, classified into main groups:

€ million	12/31/2018
Intangible assets	392
Property, plant, and equipment	756
Cash and cash equivalents	862
Inventories	1,402
Trade receivables	935
Miscellaneous assets	447
Total assets	**4,794**
Financial liabilities	555
Pensions and other post-employment benefits	130
Trade payables	671
Other provisions	460
Miscellaneous liabilities	997
Total liabilities and provisions	**2,814**
Net assets of discontinued operation	**1,980**

The purchase price for the PE business was not paid in the reporting period. The sale resulted in a cash outflow of €862 million, including reinstated cash pool receivables from the MAN Group in an amount of €759 million, which had no impact on the MAN Group's cash flow in 2018. Cash pool receivables of €525 million reinstated at the MAN Group had an offsetting effect, impacting net cash used in investing activities.

Gain or loss from entities classified as discontinued operations in prior-year periods

MAN SE's annual reports for fiscal years 2009 through 2017 contain detailed information in connection with the disposal of the shares in Ferrostaal GmbH, Essen (Ferrostaal), formerly Ferrostaal AG.

The net profit for the previous year relating to Ferrostaal is as follows:

€ million	2017
Income and expenses	25
Income taxes	–7
	17

It results from subsequent purchase price adjustments for prior-period taxes of this former subsidiary, including interest. The amounts presented are included in "Net cash provided by operating activities" in the statement of cash flows for January 1 to December 31, 2017.

b) Other disposal group

The restructuring of the Indian operations of MAN Truck & Bus was initiated in the 3rd quarter of 2018 and completed in the 4th quarter of 2018. Impairment losses in the mid-double digit millions of euros arose in connection with the sale of the assets attributed to these operations. Of this total, an amount of €30 million was attributable to property, plant, and equipment, and intangible assets, and is included in cost of sales.

Income statement disclosures

6 Sales revenue

The Group's sales revenue by segment is broken down as follows:

€ million	MAN Truck & Bus	MAN Latin America	Others	2018
Vehicles	6,688	1,290	–97	7,881
Genuine parts in the commercial vehicles business	1,453	89	–27	1,515
Used vehicles	681	9	–	690
Engines, power trains	409	–	–4	406
Buyback and leasing business[1]	865	–	–	865
Workshop services	617	7	1	625
Other sales revenue	101	26	–4	123
	10,815	**1,421**	**–131**	**12,104**

[1] Not revenue within the scope of IFRS 15

Other sales revenue includes license royalties.

2018 sales revenue included in contract liabilities at the beginning of the reporting period (note (29)) amounted to €340 million.

Sales revenue of €25 million results from performance obligations satisfied in previous periods. This relates primarily to the reversal of provisions for customer rebates.

a) Information about the Group's performance obligations

The Group's performance obligations largely comprise sales of trucks, heavy-duty special-purpose vehicles, buses, and related genuine parts, as well as the rendering of repair and maintenance services. In addition to standard statutory warranties, the Group also offers extended warranties.

Performance obligations in connection with the sale of products are satisfied when the customer obtains control of those products. That is normally the case when the product is delivered to the customer and the customer has accepted the vehicle.

The payment terms generally provide for a 30-day period. Payment terms of up to 140 days are granted in certain markets. Contracts do not contain any significant financing components. Customers can decide to finance a vehicle by means of financing solutions offered by a Volkswagen Group subsidiary (e.g., Volkswagen Financial Services). If a Volkswagen Group financing company provides financing, MAN receives payment from that party shortly after the customer has received the vehicle.

Performance obligations related to servicing contacts and certain extended guarantees are satisfied over the term of the warranty. In the case of prepayments, the allocated transaction price is recognized as a contract liability at the date of the original sale transaction and recognized as revenue over the period of the service. If payment of the service fee is the same as the service rendered, the revenue recognized corresponds to the fees paid.

In the case of contracts in which service elements are insignificant compared with the selling price of the vehicle, the residual approach is used to allocate the transaction price. This does not result in any material differences compared with the revenue based on relative standalone selling prices.

b) Allocation of transaction price to the remaining performance obligations

The following table shows the value of the sale contracts to which unsatisfied or partially unsatisfied performance obligations were allocated at the end of the reporting period. Revenue recognition is expected in the time bands shown.

€ million	12/31/2018
Expected timing of revenue recognition	
Up to one year	3,498
1 to 5 years	269
More than 5 years	6
	3,773

7 Other operating income

€ million	2018	2017
Income from foreign exchange gains	122	120
Income from reversal of provisions and accruals	16	61
Income from foreign currency derivatives within hedge accounting	–	41
Income from other derivatives	12	–
Income from cost allocations	41	43
Gains on disposal of noncurrent assets and the reversal of impairment losses	8	15
Income from reversal of valuation allowances on receivables and other assets	–	10
Rental and lease income	6	8
Miscellaneous income	220	73
	426	**372**

Foreign exchange gains mainly comprise gains from changes in exchange rates between the dates of recognition and payment of receivables and liabilities denominated in foreign currencies, as well as exchange rate gains resulting from measurement at the closing rate. Foreign exchange losses from these items are included in other operating expenses.

Income from other derivatives mainly contains exchange rate gains from the fair value measurement of derivatives used for foreign currency hedges that are not included in hedge accounting. Foreign exchange losses are included in other operating expenses. These effects were reported in the financial result in the prior-year period. IFRS 9 requires them to be presented in operating profit.

Miscellaneous income includes income from the reversal of social security liabilities amounting to €144 million. It also includes government grants of €5 million (previous year: €14 million) for expenses incurred.

In the previous year, “Income from reversal of valuation allowances on receivables and other assets” contained income from the reversal of impairment losses recognized on trade receivables. As a result of the switch in the accounting to IFRS 9, this income is reported in “Net impairment losses on financial assets” in the reporting period.

8 Other operating expenses

€ million	2018	2017
Foreign exchange losses	114	128
Losses from foreign currency derivatives within hedge accounting	–	7
Losses from other derivatives	23	–
Losses on disposal of noncurrent assets	3	4
Valuation allowances on receivables and other assets	–	20
Miscellaneous expenses	285	135
	425	**294**

Other operating expenses comprise expenses that are not allocated to the functional expenses, and in particular to cost of sales.

Losses from other derivatives mainly contain exchange rate losses from the fair value measurement of derivatives used for foreign currency hedges that are not included in hedge accounting. These effects were reported in the financial result in the prior-year period. IFRS 9 requires them to be presented in operating profit.

Miscellaneous expenses include expenses for litigation risks and other items. Expenses for the restructuring of MAN Truck & Bus's activities in India are also reported here, see also note (5). Additionally, this item includes expenses for valuation allowances on transaction tax receivables of €88 million at MAN Latin America.

In the previous year, "Valuation allowances on receivables and other assets" contained impairment losses recognized on trade receivables. As a result of the switch in the accounting to IFRS 9, this income is reported directly in "Net impairment losses on financial assets" in the reporting period.

9 Net interest expense

€ million	2018	2017
Interest and similar income	36	50
Interest and similar expenses	–118	–157
Net interest on the net liability for pensions and other post-employment benefits	–8	–9
Unwinding of discount and effect of change in discount rate on liabilities and other provisions	–3	–6
Net interest expense	**–94**	**–122**

Net interest expense mainly contains interest expense for financial liabilities.

10 Other financial result

€ million	2018	2017
Other income from equity investments	202	2
Income from profit transfer	2	0
Other expenses from equity investments	–6	0
Realized income and expenses from currency translation	–5	8
Gains/losses from remeasurement of financial instruments	–41	0
Gains/losses from changes in the fair value of derivatives not included in hedge accounting	32	10
Other financial result	**183**	**19**

In 2018, other income from equity investments contained dividend income from the investment in Scania amounting to €56 million. No dividend was paid in the previous year. This item also includes the reversal of the impairment loss on Sinotruk (Hong Kong) Limited, Hong Kong, China (Sinotruk), amounting to €145 million, see note (17).

The change in gains/losses from remeasurement of financial instruments and the change in gains/losses from changes in the fair value of derivatives not included in hedge accounting are attributable primarily to exchange rate movements.

11 Income taxes

The reported tax expense is broken down as follows:

€ million	2018	2017
Current tax expense (+)/income (–), Germany	20	–16
Current tax expense (+)/income (–), other countries	119	85
Current income taxes	**138**	**69**
of which prior-period expense (+)/income (–)	–14	11
Deferred tax expense (+)/income (–), Germany	–39	66
Deferred tax expense (+)/income (–), other countries	27	36
Deferred tax expense (+)/income (–)	**–12**	**103**
Income taxes	**126**	**171**

The tax expense expected for fiscal 2018 is based on the application of the German tax rate applicable for the 2018 assessment period of 29.9% (previous year: 29.9%) to earnings before tax. This tax rate includes municipal trade tax (14.03%), corporate income tax (15.0%), and the solidarity surcharge (5.5% of the corporate income tax liability). The Group tax rate results from the profit and loss transfer agreement with TRATON SE, a wholly owned subsidiary of Volkswagen AG, effective since January 1, 2014. The measurement of deferred taxes in the German consolidated tax group is based on a tax rate of 31.58% (previous year: 29.9%). The increase results from the termination of the tax group with TRATON SE effective January 1, 2019. The income tax rates applied for foreign companies vary between 0 and 34.0%. As in the previous year, tax rate changes outside Germany did not materially affect the total tax expense in fiscal 2018. The realization of tax loss carryforwards from previous years reduced current income taxes in fiscal 2018 by €3 million (previous year: €7 million).

Deferred tax assets of €0 million (previous year: €1 million) are recognized for German companies in respect of loss carryforwards for corporate income tax and municipal trade tax. Companies outside Germany have recognized deferred tax assets of €28 million (previous year: €32 million) for their local taxes. A deferred tax asset of €17 million (previous year: €20 million) was recognized for companies that recorded a tax loss in the previous year or in the reporting period because this tax asset is expected to be recoverable on the basis of the tax planning. No deferred tax assets were recognized as of December 31, 2018, for existing tax loss carryforwards of €1,468 million (previous year: €1,032 million) and temporary differences of €0 million (previous year: €0 million) due to the low probability of such deferred tax assets being recoverable. There are no loss carryforwards for which deferred tax assets were not recognized and that can only be carried forward for a limited time (previous year: €5 million). The deferred tax expense from the write-down of a deferred tax asset is €28 million (previous year: €60 million). The deferred tax income from the reversal of a write-down of a deferred tax asset is €3 million (previous year: €1 million).

Deferred taxes on retained earnings of foreign subsidiaries amounting to €1.9 billion (previous year: €2.5 billion) are not calculated because these profits will largely be utilized in those companies. Distributions would normally result in an additional tax expense. Calculating the taxable temporary differences would require an unreasonably high effort and was thus dispensed with.

Reconciliation of expected to effective income tax expense:

€ million	2018	2017
Profit before tax	562	327
Expected income tax expense (tax rate: 29.9%; previous year: 29.9%)	**168**	**98**
Reconciliation:		
Effect of different tax rates outside Germany	–34	–25
Proportion of taxation relating to:		
Tax-exempt income	–70	–43
Expenses not deductible for tax purposes	27	6
Effects of loss carryforwards and tax credits	26	117
Prior-period tax expense	–14	11
Effect of tax rate changes	5	0
Nondeductible withholding tax	5	1
Other tax changes	12	6
Effective income tax expense (+)/income (–)	**126**	**171**
Effective tax rate in %	22.4	52.5

Deferred tax assets and liabilities are attributable to the following balance sheet items:

	Deferred tax assets		Deferred tax liabilities	
€ million	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Intangible assets	0	0	451	522
Property, plant, and equipment, and assets leased out	17	23	839	782
Noncurrent financial assets	1	2	24	28
Inventories	12	73	3	19
Receivables and other assets	18	12	58	94
Pensions and other post-employment benefits	194	254	–	1
Liabilities and other provisions	1,253	1,140	101	20
Valuation allowances on deferred tax assets from temporary differences	–	–	–	–
Temporary differences, net of valuation allowances	1,496	1,502	1,476	1,466
Tax loss carryforwards, net of valuation allowances	28	32	–	–
Tax credits, net of valuation allowances	10	18	–	–
Figure before consolidation and offsetting	**1,535**	**1,553**	**1,476**	**1,466**
of which noncurrent	1,053	962	1,345	1,348
Offset	–1,294	–1,156	–1,294	–1,156
Consolidation	211	178	8	20
Amount recognized in balance sheet	**451**	**575**	**190**	**329**

12 Earnings per share

€ million (unless otherwise stated)	2018	2017
Profit after tax attributable to shareholders of MAN SE	675	311
of which: income from discontinued operations, net of tax	239	156
Profit from continuing operations attributable to shareholders of MAN SE	**436**	**155**
Number of shares outstanding (weighted average, million)	147.0	147.0
Earnings per share from continuing operations in €	**2.97**	**1.06**
Earnings per share from discontinued operations in €	1.62	1.06
Total in €	**4.59**	**2.12**

Earnings per share are calculated by dividing consolidated profit/loss after tax from continuing operations by the average number of shares outstanding in the year. The number of shares outstanding includes both common and preferred shares because both share classes carry the same dividend rights in 2018 as in the previous year.

Earnings per share from discontinued operations were €1.62 (previous year: €1.06).

13 Other income statement disclosures

Personnel expenses of continuing operations

€ million	2018	2017
Wages and salaries	2,030	1,918
Social security contributions, retirement and other employee benefit expenses	451	434
Continuing operations	**2,481**	**2,352**

Personnel expenses of continuing and discontinued operations

€ million	2018	2017
Wages and salaries	3,174	3,036
Social security contributions, retirement and other employee benefit expenses	680	650
Continuing and discontinued operations	**3,855**	**3,685**

Retirement and other employee benefit expenses for continuing and discontinued operations amounted to €106 million (previous year: €109 million). See note (26) for further information.

Average annual headcount of continuing and discontinued operations

	2018	2017
Performance-related wage-earners	26,016	25,617
Salaried staff	25,824	25,439
	51,840	**51,056**
of which in the passive phase of partial retirement	733	720
Vocational trainees	2,936	2,912
	54,775	**53,968**

Expenses of €152 million (previous year: €124 million) were recognized in the reporting period for minimum lease payments on assets leased through operating leases. These relate to lease expenses for buildings, among other things. Expenses of €4 million (previous year: €48 million) for contingent lease payments were also incurred.

14 Total remuneration of the auditors

The following table shows the fees charged for the work performed by the auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich (PwC), as well as by companies in the international PwC network. The figures relate to both continuing and discontinued operations.

€ million	2018	2017
Audits	4.2	4.3
Other assurance services	0.3	0.4
Tax advisory services	0.2	0.3
Other services	0.2	0.1
	4.8	**5.1**

The fees charged for work performed by the auditors, PwC, and its affiliated German companies totaled €2.6 million in fiscal 2018 (previous year: €2.4 million). Of this amount, €2.2 million (previous year: €2.2 million) is attributable to audits and €0.3 million (previous year: €0.2 million) to other assurance services. Other services amounted to €0.1 million (previous year: €0.0 million) in fiscal year 2018. As in the previous year, no tax advisory services were provided by PwC or its affiliated German companies.

Most of the fees charged for the work of the auditors in 2018 were the result of the audit of the MAN SE consolidated financial statements and of the annual financial statements of Group companies in Germany. Other assurance services, tax advisory services, and other services were provided by the auditors only to a small extent.

15 Intangible assets

€ million	Licenses, software, similar rights, customer relationships, brands, and other assets	Capitalized development costs	Goodwill	Intangible assets
Gross carrying amount at January 1, 2017	861	2,060	857	3,779
Accumulated depreciation and impairment losses	–577	–895	–78	–1,550
Balance at January 1, 2017	**284**	**1,165**	**779**	**2,229**
Changes in basis of consolidation/acquisitions	0	–	20	20
Additions	16	323	–	339
Transfers	5	–	–	5
Amortization	–41	–98	–	–139
Currency translation differences	–29	–35	–68	–132
Balance at December 31, 2017	**235**	**1,355**	**731**	**2,321**
Gross carrying amount at December 31, 2017	791	2,342	809	3,942
Accumulated amortization and impairment losses	–556	–988	–78	–1,622
Balance at January 1, 2018	**235**	**1,355**	**731**	**2,321**
Changes in basis of consolidation/acquisitions	1	–	–	1
Additions	16	289	–	305
Transfers	3	–	–	3
Disposals	–	–27	–	–27
Amortization	–35	–115	–	–150
Impairment losses	–10	–	–	–10
Currency translation differences	–18	–26	–42	–86
Reclassified as assets held for sale	–18	–263	–106	–387
Balance at December 31, 2018	**174**	**1,213**	**583**	**1,970**
Gross carrying amount at December 31, 2018	616	2,189	651	3,456
Accumulated amortization and impairment losses	–442	–976	–68	–1,485

When the Power Engineering business was classified as a discontinued operation, the carrying amounts of the corresponding intangible fixed assets were classified as current. The disposal of these assets from the MAN Group's balance sheet took place at the same time as the completion of the sale on December 31, 2018.

Purchased licenses, software, similar rights and assets, and capitalized development costs are finite-lived assets. Amortization and impairment losses are included in the functional expenses, in particular cost of sales and distribution expenses.

The restructuring of the Indian operations of MAN Truck & Bus was initiated in the 3rd quarter of 2018 and completed in the 4th quarter of 2018. In connection with the sale of the assets attributed to these operations, the related intangible assets, in particular acquired customer bases, were written off. The resulting impairment losses of €10 million were recognized in cost of sales.

Research and development costs

€ million	2018	2017
Research and noncapitalized development costs	415	458
Amortization of and impairment losses on capitalized development costs	99	84
Research and development costs recognized in the income statement	**514**	**542**

Capitalized development costs for in-process development projects that are not subject to amortization amounted to €811 million as of December 31, 2018 (previous year: €806 million).

Analysis of goodwill

€ million	12/31/2018	12/31/2017
MAN Truck & Bus	222	230
MAN Latin America	361	395
MAN Energy Solutions	–	106
	583	**731**

Goodwill is allocated to the divisions as shown above.

The goodwill attributable to the MAN Energy Solutions division was derecognized as of December 31, 2018, on the sale of the PE business.

Goodwill is tested for impairment at least once a year by comparing the carrying amounts of the units to which goodwill is allocated with their value in use. Value in use is determined using the discounted cash flow method. Impairment testing is based on the current five-year planning for the division concerned.

The principal planning assumptions primarily include expected market trends in relation to MAN's development, changes in significant production and other costs, developments in the after-sales business, and the discount rate. Assumptions are based on general market forecasts, current developments, and past experience. The long-term growth rates reflect business- and country-specific circumstances. A maximum long-term growth rate of 1% was used in fiscal 2018 (previous year: 1%).

Cash flows are forecasted individually on the basis of sales revenue and cost projections for each division to which goodwill is allocated. The pretax cost of capital (WACC) rates shown in the table below are used when measuring value in use for goodwill impairment testing. For MAN Latin America, the WACC is adjusted for country-specific risks to reflect the risk exposure.

WACC	**2018**	**2017**
MAN Truck & Bus	7.0%	6.8%
MAN Latin America	10.6%	10.6%
MAN Energy Solutions	–	8.0%

Goodwill is impaired if the division's value in use is less than its carrying amount. No impairment of recognized goodwill was identified for fiscal 2018 and 2017. The value of the recognized goodwill is not impaired even if the growth forecast for the perpetuity or the discount rate varies by +/–0.5 percentage points.

16 Property, plant, and equipment

€ million	Land and buildings	Technical equipment and machinery	Other plant, operating, and office equipment	Prepayments made and construction in progress	Investment property	Property, plant, and equipment
Gross carrying amount at January 1, 2017	2,018	2,290	1,654	444	83	6,488
Accumulated depreciation and impairment losses	–1,040	–1,592	–1,238	–4	–69	–3,943
Balance at January 1, 2017	**978**	**698**	**415**	**440**	**14**	**2,545**
Changes in basis of consolidation/acquisitions	2	1	0	–	–	4
Additions	58	98	126	197	–	480
Transfers	51	75	68	–207	1	–11
Disposals	–3	–10	–5	–3	–3	–24
Reversals of impairment losses	–	–	–	1	–	1
Depreciation	–59	–125	–132	–	–1	–316
Impairment losses	0	0	–	0	–1	–1
Currency translation differences	–10	–7	–10	–10	–	–38
Balance at December 31, 2017	**1,018**	**730**	**462**	**418**	**11**	**2,639**
Gross carrying amount at December 31, 2017	2,109	2,309	1,745	420	49	6,631
Accumulated amortization and impairment losses	–1,090	–1,578	–1,283	–3	–38	–3,992
Balance at January 1, 2018	**1,018**	**730**	**462**	**418**	**11**	**2,639**
Changes in basis of consolidation/acquisitions	0	0	0	–1	–	0
Additions	43	84	140	227	–	494
Transfers	97	111	44	–257	1	–4
Disposals	–9	–2	–8	–3	–1	–23
Reversals of impairment losses	–	–	1	1	–	2
Depreciation	–57	–122	–133	–	0	–313
Impairment losses	–10	–5	–5	0	0	–21
Currency translation differences	–8	–5	–10	–1	–	–24
Reclassified as assets held for sale	–222	–291	–101	–83	–	–697
Balance at December 31, 2018	**851**	**500**	**391**	**301**	**10**	**2,053**
Gross carrying amount at December 31, 2018	1,696	1,498	1,405	303	49	4,950
Accumulated depreciation and impairment losses	–845	–998	–1,014	–2	–39	–2,897

When the Power Engineering business was classified as a discontinued operation, the carrying amounts of the corresponding intangible fixed assets were classified as current. The disposal of these assets from the MAN Group's balance sheet took place at the same time as the completion of the sale on December 31, 2018.

Depreciation of, and impairment losses on, items of property, plant, and equipment are included in the functional expenses, in particular cost of sales.

The restructuring of the Indian operations of MAN Truck & Bus was initiated in the 3rd quarter of 2018 and completed in the 4th quarter of 2018. In this respect, the items of property, plant, and equipment sold, in particular acquired real estate, technical equipment, and special tools, were written off. The resulting impairment losses of €20 million were recognized in cost of sales.

The carrying amount of investment property amounted to €10 million as of December 31, 2018 (previous year: €11 million), compared with a fair value of €46 million (previous year: €47 million). As a general rule, fair value is calculated using an income capitalization approach based on internal calculations (Level 3 in the fair value hierarchy).

17 Equity-method investments

Associates

The most significant equity-method investment as of December 31, 2018, is the Sinotruk (Hong Kong) Limited, Hong Kong, China associate (Sinotruk).

SINOTRUK

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 €908 million as of December 31, 2018 (previous year: €648 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	2018[1]	2017[2]
Noncurrent assets	2,239	2,086
Current assets	6,461	5,449
Total assets	**8,700**	**7,534**
Noncurrent liabilities and provisions	54	55
Current liabilities and provisions	5,250	4,420
Total liabilities and provisions	**5,304**	**4,475**
Net assets	**3,395**	**3,060**

[1] Amounts shown relate to the reporting period ended June 30, 2018.
[2] Amounts shown relate to the reporting period ended June 30, 2017.

Statement of comprehensive income

€ million	2018[1]	2017[2]
Sales revenue	8,047	5,961
Profit after tax from continuing operations	558	260
Other comprehensive income	0	13
Total comprehensive income	**558**	**272**
Dividends received	53	6

[1] Amounts shown relate to the reporting period from July 1, 2017, through June 30, 2018.
[2] Amounts shown relate to the reporting period from July 1, 2016, through June 30, 2017.

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

€ million	2018	2017
Net assets	3,395	3,060
Noncontrolling interests	347	327
Net assets attributable to shareholders	3,048	2,733
Interest held by MAN in %[1]	25	25
Net assets attributable to the MAN Group	**762**	**683**
Impairment losses	–	–190
Goodwill, effects of purchase price allocation, currency translation differences, and other changes	–64	–9
Carrying amount at December 31	**698**	**484**

[1] 25% plus one share

Other associates

The carrying amounts of other associates amounted to €40 million as of December 31, 2018 (December 31, 2017: €38 million). The following table contains summarized financial information on the other associates; the disclosures relate to the Group's share of the investees in all cases:

€ million	2018[1]	2017[2]
Profit after tax from continuing operations	19	22
Other comprehensive income	1	–2
Total comprehensive income	**20**	**20**

1 Amounts shown relate to the reporting period from October 1, 2017, through September 30, 2018.
2 Amounts shown relate to the reporting period from October 1, 2016, through September 30, 2017.

There are no contingent liabilities to associates.

18 Other equity investments

Other equity investments include shares in unconsolidated subsidiaries, associates and joint ventures not accounted for using the equity method due to insignificance, and financial investments.

MAN reports shares of Scania AB, Södertälje, Sweden (Scania), as a material other equity investment. They are classified as financial instruments measured at fair value.

19 Assets leased out

€ million	2018	2017
Gross carrying amount at January 1	5,028	4,688
Accumulated depreciation	–1,525	–1,449
Balance at January 1	**3,504**	**3,239**
Additions	1,583	1,403
Disposals	–573	–537
Depreciation	–636	–610
Currency translation differences and other changes	–30	9
Balance at December 31	**3,847**	**3,504**
Gross carrying amount at December 31	5,448	5,028
Accumulated depreciation	–1,601	–1,525

Assets leased out mainly relate to commercial vehicles that were sold with buyback obligations or options. We expect the following payments from noncancellable leases and rental contracts that do not result from sales with a buyback obligation or option over the next few years:

€ million	2019	2020–2023	> 2023	12/31/2018
Lease payments	8	23	1	33

€ million	2018	2019–2022	> 2022	12/31/2017
Lease payments	9	22	4	34

20 Inventories

€ million	12/31/2018	12/31/2017
Raw materials, consumables, and supplies	277	526
Work in progress	302	988
Finished goods and purchased merchandise	1,713	1,808
Prepayments	13	76
	2,305	**3,397**

Inventories in the amount of €9,857 million (previous year: €8,966 million) were recognized under cost of sales at the same time as the sales revenue. The impairment loss amounted to €50 million (previous year: €26 million). This figure includes impairment losses on inventories amounting to €21 million that arose in connection with the restructuring of MAN Truck & Bus's activities in India. The reduction in expenses from the reversal of impairment losses recognized on inventories amounted to €0 million (previous year: €0 million).

21 Trade receivables

€ million	12/31/2018	12/31/2017
Customer receivables	1,402	2,111
Receivables from investees	45	60
	1,447	**2,171**

€12 million of the trade receivables (previous year: €16 million) is due in more than one year.

The following table explains the change in contract assets in the reporting period:

€ million	2018
Contract assets at January 1	**185**
Additions and disposals	–11
Changes in basis of consolidation	–184
Change in impairment losses	10
Contract assets at December 31	**–**

22 Other financial assets

€ million	12/31/2018	12/31/2017
Positive fair value of derivatives	64	55
Receivables from loans	45	31
Receivables from the profit and loss transfer agreement and tax allocation procedure with TRATON SE	8	–
Miscellaneous financial assets	2,094	84
	2,210	**171**

Other financial assets are reported as follows:

€ million	12/31/2018	12/31/2017
Other noncurrent financial assets	37	34
Other current financial assets	2,173	136

Derivatives are mainly used to hedge currency risks in customer orders and other foreign currency positions.

Miscellaneous financial assets include €1,980 million from purchase price receivables from Volkswagen due to the disposal of Power Engineering.

Receivables from loans include €36 million (previous year: €28 million) from Volkswagen Group companies.

23 Other receivables

€ million	12/31/2018	12/31/2017
Recoverable taxes	431	659
Miscellaneous receivables	266	248
	697	**907**

Other receivables are reported in the following balance sheet items:

€ million	12/31/2018	12/31/2017
Other noncurrent receivables	500	563
Other current receivables	197	344

24 Equity

a) Share capital, rights to implement capitalization measures

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

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

In accordance with the domination and profit and loss transfer agreement entered into between TRATON SE (formerly Volkswagen Truck & Bus GmbH, Volkswagen Truck & Bus AG, and TRATON AG) and MAN SE on April 26, 2013, which came into effect 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 aforementioned domination and profit and loss transfer agreement was terminated by the Executive Board of TRATON SE on August 22, 2018, with effect from midnight (00:00) on January 1, 2019, by way of notice of extraordinary termination, with the result that the compensatory dividend within the meaning of section 304 of the AktG is payable to common and preferred shareholders for the last time for fiscal 2018.

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

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

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

b) Significant shareholdings in MAN SE

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

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

c) Reserves

MAN SE's capital reserves consist of premiums paid for capital increases and the conversion of preferred shares into common shares. The MAN Group's retained earnings contain the retained earnings of MAN SE amounting to €954 million (previous year: €954 million). They also contain the retained profits and accumulated losses of subsidiaries and the differences arising between carrying amounts in the consolidated financial statements and carrying amounts in the local GAAP financial statements.

The net profit for the fiscal year before profit transfer amounting to €548 million (previous year: €193 million) was transferred to TRATON SE in accordance with the domination and profit and loss transfer agreement entered into in fiscal 2013.

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

d) Accumulated other comprehensive income

€ million	12/31/2018	12/31/2017
Currency translation differences	–505	–436
Fair value measurement of marketable securities and financial investments	–	1,979
Fair value measurement of other equity investments (equity instruments)	1,610	–
Fair value of derivatives (hedging instruments)	–11	22
Hedging expenses	1	–
Pension plan remeasurements	–552	–763
Accumulated other comprehensive income from equity-method investments	–31	–29
Deferred taxes	138	171
Accumulated other comprehensive income	**649**	**945**

The "Fair value measurement of other equity investments (equity instruments)" item contains the cumulative fair value changes of equity instruments that are measured at fair value through other comprehensive income and will not be reclassified subsequently to profit or loss. In the prior-year period, such fair value changes were reported as "Fair value measurement of marketable securities and financial investments." Cumulative changes in the fair value of the forward element or of the cross-currency basis spread are recognized in the "Hedging expenses" item. Before the application of IFRS 9, these were contained in the "Fair value measurement of derivatives (hedging instruments)" item.

Of the deferred taxes amounting to €138 million (previous year: €171 million), €156 million (previous year: €207 million) is attributable to pension plan remeasurements, €3 million (previous year: €–8 million) to the measurement of derivatives, €–24 million (previous year: €–28 million) to the fair value measurement of marketable securities and financial investments, and €2 million (previous year: €0 million) to other comprehensive income for the period from equity-method investments.

The decrease in the reserve for pension plan remeasurements was primarily the result of the disposal of the Power Engineering companies. The decline in the reserve for currency translation differences as well as the reserve for fair value measurement of derivatives is largely due to exchange rate movements. The amounts for fiscal 2018 are affected by the performance of the Brazilian real.

Other comprehensive income for the period, including noncontrolling interests, changed as follows:

€ million	12/31/2018 before tax	12/31/2018 tax effect	12/31/2018 after tax	12/31/2017 before tax	12/31/2017 tax effect	12/31/2017 after tax
Items that will not be reclassified to profit or loss						
Pension plan remeasurements	1	1	1	66	–12	53
Other comprehensive income for the period from equity-method investments	0	0	0	–2	–	–2
Other comprehensive income for the period from the fair value measurement of other equity investments (equity instruments)	–370	4	–366	–	–	–
Items that will be reclassified subsequently to profit or loss						
Unrealized gains and losses from currency translation	–88	–	–88	–202	–	–202
Reclassification of realized gains and losses to profit or loss	16	–	16	–8	–	–8
Currency translation differences	–71	–	–71	–209	–	–209
Unrealized gains and losses from the fair value measurement of marketable securities and financial investments	–	–	–	335	–5	330
Fair value measurement of marketable securities and financial investments	–	–	–	335	–5	330
Unrealized gains and losses from the fair value measurement of derivatives (hedging instruments)	–21	4	–17	21	–3	19
Reclassification of realized gains and losses to profit or loss	–12	8	–4	–27	4	–23
Fair value measurement of derivatives (hedging instruments)	–33	12	–22	–6	2	–4
Unrealized gains and losses from hedging expenses	–3	1	–2	–	–	–
Reclassification of realized gains and losses to profit or loss	5	–2	3	–	–	–
Hedging expenses	1	–1	1	–	–	–
Unrealized other comprehensive income for the period from equity-method investments	0	–	0	–17	–	–17
Reclassification of realized gains and losses to profit or loss						
Other comprehensive income for the period from equity-method investments	0	–	0	–17	–	–17
Other comprehensive income	**–472**	**16**	**–456**	**167**	**–16**	**151**

e) Noncontrolling interests

Noncontrolling interests amounted to €0 million (previous year: €104 million) as of December 31, 2018, and are insignificant, both individually and in the aggregate. In the previous year, noncontrolling interests were mainly attributable to Renk Aktiengesellschaft, Augsburg, in which MAN held a 76% interest until its deconsolidation as of December 31, 2018.

f) Capital management

The Group's capital management ensures that the goals and strategies can be achieved in the interests of stakeholders. In particular, the management focuses on generating the minimum return on invested assets that is required by the capital markets. The overall objective is to maximize the value of the Group and its subdivisions. This benefits all of the Company's stakeholder groups.

In order to maximize the use of resources and measure our success in doing so, we use return on investment (ROI) as a value-based control concept.

Return on investment (ROI)

€ million	12/31/2018	12/31/2017
MAN Group annual average invested capital	6,784	6,479
Operating profit [1]	551	566
Operating profit after tax [1]	386	396
ROI in %	5.7	6.1

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

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

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

25 Financial liabilities

€ million	12/31/2018	12/31/2017
Liabilities to banks	918	983
Liabilities to Volkswagen AG	2,000	1,950
Cash pool liabilities	1,110	37
Loans and miscellaneous liabilities	208	132
	4,236	**3,101**

Financial liabilities are reported in the following balance sheet items:

€ million	12/31/2018	12/31/2017
Noncurrent financial liabilities	1,258	1,490
Current financial liabilities	2,978	1,611

Liabilities to banks contain the utilization of committed credit lines of €760 million (previous year: €758 million) and uncommitted credit lines of €158 million (previous year: €225 million).

26 Pensions and other post-employment benefits

Depending on the situation in specific countries, the MAN Group grants its employees pension benefits in the form of defined benefit or defined contribution pension plans.

Under defined contribution plans, contributions are paid to public or private pension providers on the basis of legislative or contractual requirements. There are no benefit obligations over and above the payment of contributions.

Current contribution payments are recognized as an expense in the period in which they are incurred; in the MAN Group, they amounted to a total of €150 million in 2018 (previous year: €142 million). The following amounts were recognized in the balance sheet for defined benefit obligations:

€ million	2018	2017
Present value of funded obligations	1,753	2,997
Fair value of plan assets	–1,416	–2,538
Funded status at December 31	**337**	**460**
Present value of unfunded obligations	143	128
Amount not recognized as an asset because of the ceiling in IAS 19	3	1
Carrying amounts at December 31	**483**	**589**
of which pension provisions	488	590
of which other receivables	–5	–2

a) German pension plans

Once their active working life is over, the MAN Group grants its employees in Germany benefits provided by a modern, attractive occupational pension system that constitute one of the key elements of its remuneration policy. Occupational pensions provide reliable additional retirement benefits as well as risk protection in the event of invalidity or death.

Under the MAN Group's current pension plans, all active employees receive employer contributions that are tied to their remuneration and can also make additional provision through deferred compensation — which is employer-subsidized for staff subject to collective bargaining agreements. The employer- and employee-funded contributions plus returns on capital market investments allow staff to accumulate plan assets during their active employment that are paid out as a lump sum or in installments on retirement, or that can be annuitized in certain cases. The risk of the investments is gradually reduced as employees get older (lifecycle concept). The performance of the plan assets is based on the return on capital investments. In line with the legislative requirements, the total amount of contributions paid in for the employee is paid out as a minimum when the employee retires.

Former employees, pensioners, or employees with vested benefits who have left the MAN Group have benefit commitments from discontinued pension plans, most of which are designed to provide lifelong pension payments. These commitments are exposed to the standard longevity and inflation risks, which are regularly monitored and assessed.

The MAN Group's German pension assets are managed by MAN Pension Trust e.V. and MAN Pensionsfonds AG. These assets are irrevocably protected from recourse by the Group companies and may only be used to fund current pension benefit payments or to settle claims by employees in the event of insolvency. Proper management and utilization of the trust assets is supervised by independent trustees. Additionally, MAN Pensionsfonds AG is regulated by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin — German Federal Financial Supervisory Authority).

The pension assets are invested by professional investment managers in accordance with investment rules laid down by MAN SE's investment committee. Strategic allocation of the pension assets is based on regular asset/liability management studies.

There is a general prohibition on acquiring securities issued by companies in the Volkswagen Group and on investing in real estate used by MAN Group companies.

b) Pension plans outside Germany

Employees in the United Kingdom, Switzerland, and Brazil receive pension benefits under defined benefit funded pension plans.

The pension plans in the United Kingdom have been closed and grant lifelong pension benefits. Trustee boards, which have appointed professional administrators and advisers, are responsible for administering the pension plans, including investing the assets. Regular asset/liability management studies form the basis of investment and risk management. The investment risk is being gradually reduced as part of a defined derisking strategy as funding ratios improve.

In Switzerland, the pension entitlements and the plan assets are managed in multiple-employer pension institutions. The employees accumulate plan assets in these institutions that are then converted into a lifelong annuity at the terms prevailing when the employee reaches pensionable age. The pension institutions are managed conservatively on the basis of standards imposed by the government. If the plan assets are insufficient to meet the pension entitlements because of adverse market developments, the member employers and their employees may be required to make "stabilization contributions."

Furthermore, other countries have pension plans with a low level of benefits or grant mandatory post-employment benefits. These benefits are backed in full (Brazil) or in part (Belgium) by capital, or are only funded by provisions.

c) Funded status

Measurement of the present value of the defined benefit obligations was based on the following actuarial assumptions:

	Germany		Other countries[1]	
%	**2018**	**2017**	**2018**	**2017**
Discount rate at December 31	1.70	1.60	3.00	1.98
Payroll trend	3.50	3.60	1.43	1.11
Pension trend	1.50	1.50	1.09	1.22
Employee turnover rate	4.37	4.39	0.81	3.55

[1] Weighted average rates

The biometric parameters are based on current country-specific mortality tables. For Germany, the 2005 G mortality tables published by Prof. Klaus Heubeck were adapted to match MAN-specific experience, most recently in 2017, and thus model mortality in the MAN Group better than the updated RT2018G mortality tables published in the fiscal year.

As a general principle, the discount rates are defined to reflect the yields on highly-rated corporate bonds with matching maturities and currencies. The pension and payroll trends either correspond to contractually stipulated adjustments or are based on the general criteria that are valid in the countries concerned. The payroll trends cover expected wage and salary trends, which also include increases due to career development. The employee turnover rates are based on past experience and future expectations.

The following table shows changes in the net defined benefit liability recognized in the balance sheet:

€ million	**2018**	**2017**
Net liability recognized in the balance sheet at January 1	590	623
Current service cost	79	81
Net interest cost	10	11
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	–15	19
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–57	12
Actuarial gains (–)/losses (+) arising from experience adjustments	–10	13
Return on plan assets not included in interest income	79	–101
Change in amount not recognized as an asset because of the ceiling in IAS 19	2	1
Employer contributions to plan assets	–38	–37
Employee contributions to plan assets	9	8
Pension payments from company assets	–27	–36
Past service cost (including plan curtailments)	–15	0
Changes in basis of consolidation	–124	0
Currency translation differences from foreign plans	0	–5
Net liability recognized in the balance sheet at December 31	**483**	**590**

The change in the present value of the defined benefit obligations is attributable to the following factors:

€ million	2018	2017
Present value of DBO at January 1	3,125	3,134
Current service cost	79	81
Interest cost	53	55
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	–15	19
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–57	12
Actuarial gains (–)/losses (+) arising from experience adjustments	–10	13
Employee contributions to plan assets	15	15
Pension payments from company assets	–27	–36
Pension payments from plan assets	–78	–109
Past service cost (including plan curtailments)	–15	0
Changes in basis of consolidation	–1,134	–1
Other changes	–49	0
Currency translation differences from foreign plans	8	–58
Present value of DBO at December 31	**1,895**	**3,125**

Changes in the relevant actuarial assumptions would have had the following effects on the present value of the defined benefit obligation:

		12/31/2018		12/31/2017	
Present value of DBO if		€ million	%	€ million	%
	is 0.5 percentage points higher	1,797	–5.19	2,952	–5.56
Discount rate	is 0.5 percentage points lower	2,005	5.81	3,321	6.27
	is 0.5 percentage points higher	1,905	0.51	3,137	0.37
Payroll trend	is 0.5 percentage points lower	1,887	–0.46	3,115	–0.33
	is 0.5 percentage points higher	1,961	3.47	3,256	4.16
Pension trend	is 0.5 percentage points lower	1,835	–3.19	3,006	–3.84
Longevity	increases by 1 year	1,934	2.06	3,195	2.21

The sensitivity analysis shown above considers the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation, i.e., any correlation effects between the individual assumptions are ignored.

To examine the sensitivity of the present value of the defined benefit obligation to a change in assumed life expectancy, the age of the beneficiaries was reduced by one year as part of a comparative calculation.

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is eleven years (previous year: twelve years).

The maturity profile of payments attributable to the defined benefit obligation is presented in the following table by classifying the present value of the obligation by the maturity of the underlying payments:

€ million	2018	2017
Payments due in up to one year	83	139
Payments due in one to five years	304	522
Payments due after more than five years	1,508	2,464
Total	**1,895**	**3,125**

Changes in plan assets are shown in the following table:

€ million	2018	2017
Plan assets at January 1	2,538	2,512
Interest income on plan assets calculated using the discount rate	43	44
Return on plan assets not included in interest income	–79	101
Employer contributions to plan assets	38	37
Employee contributions to plan assets	6	8
Pension payments from plan assets	–79	–109
Changes in basis of consolidation	–1,010	–1
Other changes	–48	0
Currency translation differences from foreign plans	7	–53
Plan assets at December 31	**1,416**	**2,538**

Employer contributions to plan assets are expected to amount to €46 million in the next annual reporting period (previous year: €66 million).

Plan assets are invested in the following asset classes:

	12/31/2018			12/31/2017		
€ million	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	50	–	50	80	–	80
Equity instruments	4	–	4	82	–	82
Debt instruments	145	–	145	181	–	181
Direct investments in real estate	–	–	–	–	84	84
Equity funds	326	–	326	507	–	507
Bond funds	420	–	420	740	–	740
Real estate funds	53	–	53	79	–	79
Other funds	–	–	–	180	1	182
Other instruments	7	410	417	35	569	604
Fair value of plan assets	**1,006**	**410**	**1,416**	**1,884**	**654**	**2,538**

34% (previous year: 26%) of the plan assets are invested in German assets, 43% (previous year: 56%) in other European assets, and 23% (previous year: 18%) in assets in other regions.

27 Other provisions

€ million	12/31/2017 before adjustment	IFRS 15 adjustment	01/01/2018 after adjustment	Change in basis of consolidation, currency translation	Reclassifications [1]	Utilization	Additions	Reversals	Interest effects [2]	As of 12/31/2018
Warranties	799	–88	711	–6	–135	–147	296	–126	–10	582
Outstanding costs	254	–16	239	–2	–88	–106	138	–30	0	150
Obligations to employees	184	–	184	–8	–53	–45	57	–2	1	135
Litigation and legal risks	99	–	99	–9	–4	–18	25	–12	–	82
Restructurings	114	–	114	–2	–24	–26	2	–35	0	29
Miscellaneous provisions	319	–	319	–34	–152	–83	153	–30	0	172
	1,770	**–103**	**1,666**	**–61**	**–455**	**–425**	**671**	**–235**	**–10**	**1,150**

[1] Reclassification of liabilities associated with noncurrent assets held for sale
[2] Interest unwinding and change in discount rate

The following table provides an overview of other provisions by maturity:

€ million	12/31/2018		12/31/2017	
	Noncurrent	Current	Noncurrent	Current
Warranties	348	234	422	377
Outstanding costs	45	105	58	196
Obligations to employees	96	38	134	50
Litigation and legal risks	65	16	80	20
Restructurings	–	29	15	99
Miscellaneous provisions	6	166	24	295
	561	**589**	**733**	**1,036**

Provisions for warranty obligations are recognized for statutory and individual contractual guarantee obligations and for ex gratia settlements with customers. The timing of settlement of provisions for warranties depends on the occurrence of the warranty claim and may extend to the entire warranty and ex gratia settlement period. Provisions for outstanding costs are recognized for services still to be provided for customer contracts and contract elements already billed, and for obligations under maintenance and service contracts as well as for distribution expenses. Obligations to employees relate to anniversary payments, termination benefits, and partial retirement obligations. The provisions for litigation and legal risks contain amounts related to a large number of legal disputes and official proceedings in which MAN Group companies become involved in Germany and internationally in the course of their operating activities. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, and employees. The provisions for restructurings relate to the restructuring measures MAN Truck & Bus and MAN Latin America initiated in the previous year. 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.

28 Other financial liabilities

€ million	12/31/2018	12/31/2017
Liabilities from buyback obligations	2,827	2,580
Negative fair value of derivatives	44	40
Interest payable	27	27
Liabilities from the profit and loss transfer agreement and tax allocation procedure with TRATON SE	548	109
Miscellaneous financial liabilities	83	95
	3,530	**2,851**

The liabilities from buyback obligations originate from sales of commercial vehicles accounted for as operating leases because of a buyback agreement.

Other financial liabilities continue to include the negative fair value of derivatives. They are mainly used to hedge currency risks in customer orders and other foreign currency positions.

Other financial liabilities are reported in the following balance sheet items:

€ million	12/31/2018	12/31/2017
Other noncurrent financial liabilities	1,829	1,741
Other current financial liabilities	1,700	1,110

29 Other liabilities

€ million	12/31/2018	12/31/2017
Deferred purchase price payments for assets leased out	1,751	1,640
Payroll liabilities	269	455
Miscellaneous other tax payables	227	393
Contract liabilities	411	–
Liabilities related to social security contributions	14	22
Miscellaneous other liabilities	31	143
	2,703	**2,653**

Other liabilities are reported in the following balance sheet items:

€ million	12/31/2018	12/31/2017
Other noncurrent liabilities	1,103	1,202
Other current liabilities	1,600	1,452

The following table explains the change in contract liabilities in the reporting period:

€ million	2018
Contract liabilities at January 1	**1,029**
Additions and disposals	45
Changes in basis of consolidation	–658
Changes in measurements and estimates and contract amendments	–
Currency translation adjustments	–3
Held for sale	–
Contract liabilities at December 31	**411**

Other disclosures

30 Litigation/legal proceedings

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

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

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

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

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

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

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

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

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

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

31 Contingent liabilities and commitments

€ million	12/31/2018	12/31/2017
Contingent liabilities under guarantees [1]	178	3
Other contingent liabilities [1]	928	918

[1] In addition, contingent liabilities under guarantees for discontinued operations amounted to €1 million as of December 31, 2018, and €2 million as of December 31, 2017. Other contingent liabilities related to discontinued operations amounted to €6 million as of December 31, 2018, and €6 million as of December 31, 2017. The corresponding discontinued operations were deconsolidated in 2018.

Contingent liabilities under guarantees relate mainly to guarantees issued for trade obligations of investees, former investees, and other companies.

Guarantees of €3 million (previous year: €3 million) are in place for the benefit of subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group. There are also guarantees for subsidiaries and investees of Volkswagen AG amounting to €174 million (previous year: €0 million). As of December 31, 2018, they include guarantees for companies that formerly belonged to the PE business. Contingent liabilities under guarantees include financial guarantees of €14 million (previous year: €1 million).

Other contingent liabilities relate mainly to contingent liabilities for potential charges from tax risks, which exist for MAN Latin America. See note (30) for further information.

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 €2,146 million as of December 31, 2018 (previous year: €1,897 million), including €2,139 million (previous year: €1,890 million) to financial services companies of the Volkswagen Group. However, based on experience, the majority of these guarantees expire without being drawn upon.

Any recourse claims are not offset in the measurement of the contingent liabilities disclosed.

32 Other financial obligations

Other financial obligations include rental and lease obligations for leased property, among other things. The future rental and lease payments under operating leases are due as follows until expiration of the lease terms:

€ million	12/31/2018	12/31/2017
Due in up to one year	124	112
Due in one to five years	292	267
Due after more than five years	341	342
	758	**721**

Purchase commitments for items of property, plant, and equipment amounted to €531 million at the end of the reporting period (previous year: €410 million). Purchase commitments for intangible assets amounted to €1 million (previous year: €4 million).

33 Statement of cash flows

The statement of cash flows classifies cash flows into net cash used in/provided by operating, investing, and financing activities. The effects of changes in the basis of consolidation and of exchange rate changes are eliminated in the corresponding line items, which is why the changes in balance sheet items presented in the statement of cash flows cannot be derived directly from the balance sheet. The change in cash and cash equivalents attributable to changes in exchange rates is presented in a separate line item.

Net cash used in/provided by operating activities is reported using the indirect method by eliminating non-cash operating expenses and income, as well as gains and losses from asset disposals, from profit/loss before tax. Income taxes paid/refunded also include amounts from the tax allocation procedure with TRATON SE. The change in assets leased out and in the customer payments received for them is allocated to net cash used in/provided by operating activities.

Net cash used in/provided by investing activities includes additions to property, plant, and equipment, intangible assets and equity investments, capitalized development costs, and investments in securities and loans. Payments received from these positions are offset. Payments from the disposal of subsidiaries are reported net of cash disposed. Moreover, any cash pool receivables reinstated there are allocated to the MAN Group.

Net cash used in/provided by financing activities is composed of the following cash transactions: dividends allocated to noncontrolling interests, transfer of the profit for the fiscal year to, or absorption of the loss by, TRATON SE, capital transactions with noncontrolling interests, repayment of bonds, and the change in miscellaneous financial liabilities.

In 2018, net cash provided by operating activities includes interest received amounting to €35 million (previous year: €33 million) and interest paid amounting to €117 million (previous year: €165 million). In addition, the share of profits and losses of equity-method investments includes dividends amounting to €55 million (previous year: €6 million). Dividends received from financial investments and other equity investments amounted to €56 million (previous year: €2 million).

Based on the domination and profit and loss transfer agreement between TRATON SE and MAN SE, the profit of €193 million for fiscal 2017 was transferred to TRATON SE (previous year: loss absorption of €99 million for 2016).

Cash and cash equivalents presented in the statement of cash flows correspond to the “Cash and cash equivalents” item in the balance sheet. Current account overdraft facilities are not presented as a component of cash and cash equivalents in the statement of cash flows, but are reported in net cash used in/provided by financing activities if they are used. Cash and cash equivalents contain the following items:

€ million	12/31/2018	12/31/2017
Cash and bank balances	576	779
Cash pool receivables	573	3
	1,150	**782**

Cash pool receivables consist of surplus liquidity that MAN SE has extended to Volkswagen Group companies as part of its centralized cash management.

The following tables show the changes in financial assets and liabilities used in financing activities between the beginning and end of fiscal year 2018 and the prior-year period.

€ million	Balance at January 1, 2017	Changes affecting cash flows	Changes affecting cash flows – discontinued operations	Noncash transactions	Balance at December 31, 2017
Bonds	750	–750	–	0	–
Miscellaneous financial liabilities	2,245	931	–4	–70	3,101
Financial liabilities	**2,995**	**181**	**–4**	**–70**	**3,101**
Derivatives associated with financing activities	33	–10	–	–18	5
Financial assets and liabilities in financing activities	**3,028**	**171**	**–4**	**–88**	**3,106**

€ million	Balance at January 1, 2018	Changes affecting cash flows	Changes affecting cash flows – discontinued operations	Changes in basis of consolidation	Noncash transactions	Balance at December 31, 2018
Miscellaneous financial liabilities	3,101	489	–6	748	–96	4,236
Financial liabilities	**3,101**	**489**	**–6**	**748**	**–96**	**4,236**
Derivatives associated with financing activities	5	–33	0	–	4	–24
Financial assets and liabilities in financing activities	**3,106**	**456**	**–6**	**748**	**–92**	**4,212**

34 Additional disclosures on financial instruments

Financial instruments are classified into the following classes in the MAN Group:

- Financial instruments measured at fair value
- Financial instruments measured at amortized cost
- Derivatives included in hedging relationships
- Not allocated to any IFRS 9 measurement category

The following tables present the net gains and losses on financial assets and liabilities in accordance with the relevant IAS 39 (2017) and IFRS 9 (2018) categories. Material items are explained in the following:

Net gains and losses on financial instruments by IAS 39 measurement category in 2017:

€ million	2017
Loans and receivables	19
Available-for-sale financial assets	1
Financial liabilities at cost	–25
Financial assets and liabilities at fair value through profit or loss	–24

Net gains and losses on financial instruments by IFRS 9 measurement category in 2018:

€ million	2018
Financial instruments at fair value through profit or loss	19
Financial assets at cost	5
Financial liabilities at cost	–139
Equity instruments at fair value through other comprehensive income	56

No gains/losses on the derecognition of financial assets measured at amortized cost were recognized in the reporting period.

Of the financial instruments measured at fair value through profit or loss, €56 million is attributable to dividends distributed by nonderecognized financial investments and €1 million to dividends distributed by derecognized financial investments.

Net gains and losses on financial assets and liabilities measured at fair value through profit or loss comprise derivatives not included in a hedging relationship.

Net gains and losses on financial assets and liabilities measured at amortized cost comprise interest income and expenses measured using the effective interest method under IFRS 9 and gains and losses from currency translation. Net gains and losses on financial assets also include impairment losses and their reversal.

Aggregate interest income and expenses of financial instruments not measured at fair value through profit or loss under IAS 39 (2017) and IFRS 9 (2018) are presented in the following:

€ million	2017
Interest income	23
Interest expenses	–137

€ million	2018
Interest income	
Financial assets at amortized cost	22
Interest expenses	
Financial liabilities at amortized cost	–101

Interest income on impaired financial assets is insignificant because receipt of payment is expected in the short term in most cases.

The carrying amount of financial instruments by IFRS 9 measurement category as of December 31, 2018, was as follows:

€ million	12/31/2018
Assets measured at fair value through other comprehensive income	2,807
Assets measured at fair value through profit or loss	55
Assets measured at amortized cost	4,743
Liabilities measured at fair value through profit or loss	26
Liabilities measured at amortized cost	9,158

Reconciliation of balance sheet items to the IAS 39 (December 31, 2017) and IFRS 9 (December 31, 2018) classes of financial instruments

The following tables show the reconciliation of the balance sheet items to the relevant classes of financial instruments, broken down by the carrying amount and fair value of the financial instruments. The fair value of financial instruments measured at amortized cost, such as receivables and liabilities, is measured by discounting using a market rate of interest for a similar risk and matching maturity. For reasons of materiality, the fair value of current balance sheet items is generally considered to be their carrying amount. On initial application of IFRS 9 and IFRS 15, the carrying amounts of contract assets under IFRS 15 are reported in "Not allocated to any IFRS 9 measurement category" starting in fiscal year 2018.

€ million	Measured at fair value: Recognized in other comprehensive income[1]	Measured at fair value: Through profit or loss[2]	Measured at (amortized) cost[3]		Derivatives included in hedging relationships[4]	Not within the scope of IFRS 7	Balance sheet item at 12/31/2017
	Carrying amount	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets							
Equity-method investments	–	–	–	–	–	522	522
Other equity investments	3,172	–	5	–	–	35	3,213
Other financial assets	–	0	29	29	5	–	34
Current assets							
Trade receivables	–	–	2,171	2,171	–	–	2,171
Other financial assets	–	19	87	87	30	–	136
Cash and cash equivalents	–	–	782	782	–	–	782
Noncurrent liabilities							
Financial liabilities	–	–	1,490	1,490	–	–	1,490
Other financial liabilities	–	3	1,738	1,738	1	–	1,741
Current liabilities							
Financial liabilities	–	–	1,611	1,611	–	–	1,611
Trade payables	–	–	1,925	1,925	–	–	1,925
Other financial liabilities	–	31	1,073	1,073	6	–	1,110

[1] Corresponds to the "available-for-sale financial assets" measurement category under IAS 39. These are classified in Level 3 of the fair value hierarchy.
[2] Corresponds to the "financial instruments measured at fair value through profit or loss" measurement category under IAS 39. These are classified in Level 2 of the fair value hierarchy.
[3] Includes financial investments classified as available for sale whose fair value cannot be reliably determined due to the lack of an active market and that are measured at cost, and the "loans and receivables" and "financial liabilities measured at amortized cost" measurement categories
[4] Classified in Level 2 of the fair value hierarchy

	Measured at fair value						
	Recognized in other comprehensive income [1]	Through profit or loss [2]	Measured at (amortized) cost		Derivatives included in hedging relationships [3]	Not allocated to any IFRS 9 measurement category	Balance sheet item at 12/31/2018
€ million	Carrying amount	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
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

1 Recognized in other comprehensive income: the equity investment reported in the "at fair value through other comprehensive income" class relates primarily to the shares in Scania and is allocated to Level 3.
2 Through profit or loss: classified in Level 2 of the fair value hierarchy
3 Derivatives included in hedging relationships are classified in Level 2.

Other fair value disclosures:
Fair values were determined on the basis of the market conditions prevailing at the end of the reporting period and the valuation techniques described in the following. They correspond to the prices that would be received for the sale of an asset or paid for the transfer of a liability between market participants in an arm's length transaction. There were no material changes in the valuation techniques applied as against those applied in the previous year.

The fair value of fixed-rate bank borrowings and other financial liabilities is measured as the present value of the cash flows expected to be required to settle the liabilities, discounted using standard market rates of interest for matching maturities.

Future cash flows are estimated using forward curves for derivative financial instruments without option components, which include currency forwards, commodity futures, interest rate swaps, and cross-currency swaps. The fair value of these instruments corresponds to the total discounted cash flows. Options on currency pairs are measured on the basis of standard option pricing models.

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: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). The fair value of Level 3 receivables was measured by reference to individual expectations of losses; these are based, to a significant extent, on the Company's assumptions about counterparty credit quality.

The following is an overview of the fair values of the financial assets and liabilities measured at amortized cost by level:

€ million	12/31/2017	Level 1	Level 2	Level 3
Trade receivables	2,171	–	2,166	5
Other financial assets	115	–	115	–
Cash and cash equivalents	782	782	–	–
Financial liabilities	3,101	–	3,101	–
Trade payables	1,925	–	1,925	–
Other financial liabilities	2,811	–	2,811	–

€ million	12/31/2018	Level 1	Level 2	Level 3
Trade receivables	1,447	–	1,447	–
Other financial assets	2,146	–	2,146	–
Cash and cash equivalents	1,150	1,150	–	–
Financial liabilities	4,236	–	4,236	–
Trade payables	1,437	–	1,437	–
Other financial liabilities	3,485	–	3,485	–

The transfers between the levels of the fair value hierarchy are reported at the respective reporting dates. There were no transfers between Level 1, Level 2, and Level 3 in fiscal years 2018 and 2017.

The following table shows the development of the balance sheet items measured at fair value and classified in Level 3, which relate primarily to the investment in Scania.

€ million	Financial assets measured at fair value
Balance at January 1, 2017	2,837
Fair value changes recognized in "Measurement of marketable securities and financial investments" in other comprehensive income	335
Balance at December 31, 2017	3,172
IFRS 9 adjustments	8
Balance at January 1, 2018, after adjustments	3,180
Changes in "Other comprehensive income for the period from the fair value measurement of other equity investments (equity instruments)" recognized in other comprehensive income	–370
Reclassified as assets held for sale	–3
Balance at December 31, 2018	2,807

As significant unobservable inputs, the assumptions regarding corporate planning, the growth rates used to estimate cash flows after the end of the planning period, and the discount rate are taken into account in the measurement. A long-term growth rate of 1% (previous year: 1%) and a cost of capital after tax of 5.5% (previous year: 5.6%) are applied. Based on the information currently available, a material change in corporate planning is considered unlikely. The cash flow forecasts used are therefore considered to be an appropriate basis for measuring fair value. A variation of +/–0.5 percentage points in the long-term growth rate would increase equity by €254 million (previous year: €316 million) or reduce it by €203 million (previous year: €254 million), respectively. A variation of +/–0.5 percentage points in the after-tax cost of capital would reduce equity by €266 million (previous year: €310 million) or increase it by €331 million (previous year: €385 million), respectively. There are no significant interrelationships between the significant unobservable inputs.

Offsetting financial assets and liabilities

The following tables present information about the effects of offsetting on the consolidated balance sheet and the financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting arrangement or a similar agreement.

		Amounts that are not set off in the balance sheet		
€ million	Net amount of financial assets presented in the balance sheet	Financial instruments	Collateral received	Net amount at 12/31/2018
Derivatives	64	–21	–	43
Trade receivables	1,447	–	–	1,447

		Amounts that are not set off in the balance sheet		
€ million	Net amount of financial liabilities presented in the balance sheet	Financial instruments	Collateral pledged	Net amount at 12/31/2018
Derivatives	44	–21	–	24

		Amounts that are not set off in the balance sheet		
€ million	Net amount of financial assets presented in the balance sheet	Financial instruments	Collateral received	Net amount at 12/31/2017
Derivatives	55	–17	–	39
Trade receivables	2,171	–	–1	2,170

		Amounts that are not set off in the balance sheet		
€ million	Net amount of financial liabilities presented in the balance sheet	Financial instruments	Collateral pledged	Net amount at 12/31/2017
Derivatives	40	–17	–	24

The gross amount of recognized financial assets and liabilities corresponds to the net amount, since these were not set off in the balance sheet. The "Financial instruments" column shows the amounts that are subject to a master netting arrangement but that have not been set off because they do not meet the offsetting criteria. These amounts can only be set off if specific future events occur, such as the insolvency of one of the counterparties. The "Collateral received" and "Collateral pledged" columns contain the amounts of cash collateral and collateral in the form of financial instruments received and pledged for the total amount of assets and liabilities.

35 Derivatives and hedging strategies

Because of the MAN Group's business activities and international focus, its assets, liabilities, and forecast transactions are exposed to market, credit, and liquidity risk. The MAN Group has a Group-wide risk management system in place to identify, quantify, and mitigate these risks.

MAN Group companies generally hedge their currency, interest rate, and commodity risks through MAN SE's Group Treasury on an arm's length basis using non-derivative and, primarily, derivative financial instruments. In countries whose exchange controls or regulatory provisions do not permit direct hedging by MAN SE — especially Brazil — MAN SE enters into currency, interest rate, and money market transactions on behalf of and for the account of the Group company concerned.

The Group's risk positions are hedged externally by Group Treasury with banks within defined risk limits. Hedging transactions entered into adequately reflect the risk management requirements applicable to banks and are subject to rigorous oversight, which is ensured, in particular, by the strict separation of trading, settlement, and supervision functions.

The MAN Group's market risks are reported regularly to the Executive Board. Compliance with the policies is reviewed by the Internal Audit function.

a) Currency risk

A currency risk arises for each MAN company if it enters into transactions resulting in future cash flows that are not denominated in that MAN company's functional currency. To mitigate the effects of exchange rate movements, the MAN companies continuously quantify the foreign exchange risk and hedge all material risks using currency forwards, currency options, interest rate swaps, and cross-currency swaps on an ongoing basis.

In the MAN Group, all firm customer orders (firm commitments), the Group's own purchases, receivables, and liabilities denominated in foreign currencies are hedged as a matter of principle. Currencies that are highly correlated with the euro, such as the Danish krone, as well as equity investments or equity-equivalent loans denominated in foreign currencies, are only hedged in individual instances. The Group also enters into hedges for forecast foreign currency revenue from the serial production business within defined hedging limits that are specific to MAN's business, and (on a case-by-case basis) for highly probable customer projects.

Hedging transactions entered into as part of foreign exchange risk management were mainly in Korean won, U.S. dollar, and sterling.

The nonderivative and derivative financial instruments held by the MAN Group at the end of the reporting period were measured in a hypothetical scenario as part of a sensitivity analysis. The effects of a 10% increase/decrease in a currency per exchange rate were as follows:

	12/31/2018				12/31/2017			
€ million	Equity		Profit for the period		Equity		Profit for the period	
Exchange rate	+10%	–10%	+10%	–10%	+10%	–10%	+10%	–10%
Euro/Brazilian real	–	–	–11	11	–	–	–8	8
Euro/Swedish krona	–9	9	10	–10	1	–1	0	0
U.S. dollar/Brazilian real	2	–2	–11	11	–16	16	–4	4
Euro/UK pound sterling	12	–12	4	–4	13	–13	2	–2
Euro/Chinese yuan	4	–4	–3	3	1	–1	–1	1
Euro/U.S. dollar	–1	1	15	–15	3	–3	15	–15
Mexican peso/U.S. dollar	8	–8	0	0	–1	1	–4	4
Euro/Mexican peso	2	–2	–8	8	1	–1	–5	5

As a result, hedge accounting is used to hedge future high volumes of foreign currency sales revenue. To avoid inefficiencies, companies that use hedge accounting in the MAN Group will choose their own hedge ratio for hedging future foreign currency sales revenue in line with their experience. There were no inefficiencies in the current or previous reporting periods.

There were no fair value hedges.

Derivatives used in hedge accounting relate solely to hedges of currency risk. The following tables show details of these derivatives:

Amount, timing, and uncertainty of future cash flows relating to hedging transactions included in hedge accounting

	Notional amount				Average hedging rate
€ million	**< 1 year**	**1 to 5 years**	**> 5 years**	**Total notional amount**	
12/31/2018					
Currency risk					
Currency forwards BRL/USD	140	140	–	280	2.7–4.2
Currency forwards EUR/GBP	178	–	–	178	0.9
Currency forwards EUR/CHF	54	10	–	64	1.1–1.2
Currency forwards EUR/DKK	48	–	–	48	7.4–7.5
Currency forwards EUR/ZAR	44	–	–	44	15.6–17.5
Currency forwards EUR/USD	36	–	–	36	1.1–1.2
Currency forwards EUR/NOK	29	–	–	29	9.4–9.7
Currency forwards EUR/CNY	23	–	–	23	7.8–8.0
Currency forwards – other currencies	59	0	–	58	
	610	**150**	**–**	**760**	

Information on hedging instruments included in hedge accounting

€ million	2018
Currency risk	
Fair value change to determine hedge ineffectiveness	–11
Carrying amount of other financial assets	9
Carrying amount of other financial liabilities	18
Nominal amount	760

Information on hedged items included in hedge accounting

€ million	2018
Currency risk	
Fair value change to determine hedge ineffectiveness	11
Carrying amount of cash flow hedge reserve: continued hedges	–11

Information about the effects of hedge accounting on the statement of comprehensive income

€ million	2018
Currency risk	
Hedging instruments within hedge accounting	
Hedging gains or losses recognized in other comprehensive income	–16
Amount reclassified from the cash flow hedge reserve to profit or loss because the hedged item has affected profit or loss	–4
Hedging expenses	
Hedging gains or losses recognized in other comprehensive income (hedging expenses)	–2
Amount reclassified from the cash flow hedge reserve to profit or loss because the hedged item has affected profit or loss	3

Amounts reclassified to profit or loss in fiscal year 2018 were recognized in sales revenue.

Reconciliation of the reserve for fair value measurement of derivatives (hedging instruments)

€ million	2018
Balance at January 1	**22**
Unrealized gains and losses from the fair value measurement of derivatives (hedging instruments)	–20
Reclassification of realized gains and losses to profit or loss	–12
Other changes (mainly foreign exchange effects)	–2
Balance at December 31	**–11**

Reconciliation of the reserve for hedging expenses

€ million	2018
Balance at January 1	**–**
Unrealized gains and losses from hedging expenses	–3
Reclassification of realized gains and losses to profit or loss	5
Other changes (mainly foreign exchange effects)	–1
Balance at December 31	**1**

b) Interest rate risk

The MAN Group is exposed to interest rate risk from interest rate-sensitive assets and liabilities.

Interest rate-sensitive financial liabilities at the reporting date exist primarily in the form of variable-rate liabilities at banks and other variable-rate financial liabilities.

Financial instruments that are sensitive to movements in interest rates are exposed to interest rate risk in the form of fair value risk or cash flow risk. Fair value risk is a measure of the sensitivity of the carrying amount of a financial instrument to changes in market rates of interest. Cash flow risk describes the exposure to variability in future interest payments in response to interest rate movements.

The goal of interest rate risk management is to largely eliminate the MAN Group's interest rate risk. Interest rate risk is captured, analyzed, and managed centrally in the MAN Group using sensitivity analyses. Group Treasury enters into hedges to mitigate risk resulting from nonderivative financial instruments and, in certain cases, for highly probable forecast customer transactions. Interest rate swaps and cross-currency swaps are used for hedging. The volumes and maturities are based on the repayment structure of the defined customer portfolios or of the financial liability and on the target hedging level.

The sensitivity analyses are based on the following assumptions:

In the case of variable-rate nonderivative financial instruments, hypothetical changes in market rates of interest would affect profit after tax as of the reporting date as shown below.

Fixed-rate nonderivative financial instruments measured at amortized cost are not exposed to any interest rate risk. At MAN, this includes liabilities to Volkswagen AG and promissory note loans. The interest rate risk of interest rate derivatives is analyzed and managed based on the measurement of the variable and fixed interest payments.

A 100 basis point (BP) parallel shift in the yield curve is assumed in order to calculate interest rate sensitivity. This would produce the following opportunities (positive values) and risks (negative values):

	12/31/2018		12/31/2017	
€ million	+100 BP	–100 BP	+100 BP	–100 BP
Variable-rate nonderivative financial instruments	–5	5	–5	5

Any earnings effects of the interest rate sensitivity analysis would be recognized exclusively in profit for the period.

c) Commodity price risk

Commodity price fluctuations lead to cost volatility for MAN. This, in turn, leads to commodity price risks that cannot always be passed on to the customer. MAN SE enters into cash-settled commodity futures to mitigate these risks.

The commodity price risks are regularly captured centrally and hedged externally on the basis of defined risk limits, to the extent that there are liquid markets. There were no material concentrations of risk in the past fiscal year. Commodity futures had been entered into at the end of the reporting period to hedge commodity price risks relating to gas, nonferrous metals, precious metals, and rubber with a fair value of €–1 million (previous year: €0 million).

The maximum remaining term of hedges of forecast transactions was 18 months at the end of fiscal 2018. Hedge accounting is not used at present.

A hypothetical 10% increase/decrease in commodity prices is assumed, in line with the sensitivity analysis of currency risks. The potential effect on profit after tax for the period of the change in the fair value of the commodity futures is €+2 million (previous year: €+1 million) for +10% or €–2 million (previous year: €–1 million) for –10%, respectively.

d) Credit and default risk

The MAN Group is exposed to credit risk through its business operations and certain financing activities. From the MAN Group's perspective, credit risk entails the risk that a party to a financial instrument will fail to meet its contractual obligations and thus cause a financial loss for the MAN Group. Credit risk comprises both the direct default risk and the risk of a deterioration in credit quality.

The following measures, in particular, are used to minimize credit risk:

The MAN Group has largely centralized liquidity management at MAN SE. The financial institutions and investment forms are carefully selected when investing cash funds centrally, while a limit system ensures diversification. Significant cash and capital market investments, as well as derivatives, are made through domestic and international banks with good creditworthiness.

The maximum default risk is reflected in the carrying amount of the financial assets recognized in the balance sheet; see note (34). It is reduced by collateral held and other credit enhancements amounting to €190 million as of December 31, 2018 (December 31, 2017: €312 million). The collateral held relates exclusively to financial assets measured at amortized cost and serves principally to secure trade receivables. The collateral includes documentary credits, credit insurance, sureties, guarantees, and retention of title. The estimated fair value of the collateral corresponds to the carrying amount.

The risk exposure from nonderivative financial instruments is also mitigated by recognizing impairment losses. In this case, material individual items for which there are doubts about collectability are monitored and measured separately. Significant cash and capital investments, as well as derivatives, are only entered into with banks and the Group parent Volkswagen AG. Financial guarantees issued also result in credit and default risk. The maximum potential credit and default risk is calculated as the amount the MAN Group would have to pay if claims are asserted under the corresponding amounts. The amounts are presented in the section on liquidity risk.

There were no material concentrations of credit risk in the MAN Group as of the 2018 reporting date.

The following table shows a reconciliation of the loss allowance for financial instruments measured at amortized cost and contract assets:

	General approach			Simplified approach[1]	
€ million	12-month expected credit loss (Stage 1)	Lifetime expected credit losses – not impaired (Stage 2)	Lifetime expected credit losses – impaired (Stage 3)		Total
Loss allowance at January 1, 2018	**1**	**–**	**3**	**137**	**141**
Transfer into Stage 1	–	–	–	–	–
Transfer into Stage 2	–	–	–	–	–
Transfer into Stage 3	–	–	–	–	–
Utilization	–	–	0	–20	–20
Reversals	0	–	–	–24	–24
Financial assets issued/acquired (additions)	0	–	–	21	21
Change in models or inputs	0	–	–	3	3
Changes in basis of consolidation	0	–	–	–53	–53
Other changes (mainly changes due to exchange rate movements)	0	–	–2	0	–2
Loss allowance at December 31, 2018	**1**	**–**	**1**	**64**	**66**

[1] The decline in 2018 is due in particular to the sale of the PE business.

The following tables show how changes in the gross carrying amount of financial assets led to a change in the loss allowance and how the gross carrying amount of financial assets is allocated to the credit risk rating grades:

€ million	General approach			Simplified approach[1]	
	12-month expected credit loss (Stage 1)	Lifetime expected credit losses – not impaired (Stage 2)	Lifetime expected credit losses – impaired (Stage 3)		Total
Gross carrying amount at January 1, 2018	**1,068**	**–**	**1**	**2,060**	**3,128**
Transfer into Stage 1	–	–	–	–	–
Transfer into Stage 2	–	–	–	–	–
Transfer into Stage 3	–	–	–	–	–
Changes due to financial assets issued/acquired or derecognized	2,074	–	0	244	2,317
Changes in basis of consolidation	186	–	–	–779	–593
Changes due to exchange rate movements	–29	–	–	–15	–44
Gross carrying amount at December 31, 2018	**3,299**	**–**	**1**	**1,510**	**4,809**

[1] The decline in 2018 is due in particular to the sale of the PE business.

The change in twelve-month expected credit losses (Stage 1) is due in particular to the addition of the receivable from the sale of the PE business.

€ million	General approach			Simplified approach	
	12-month expected credit losses (Stage 1)	Lifetime expected credit losses – not impaired (Stage 2)	Lifetime expected credit losses – impaired (Stage 3)		Total
Credit risk rating grade 1	3,299	–	–	1,439	4,738
Credit risk rating grade 2	–	0	–	34	34
Credit risk rating grade 3	–	–	1	37	37
Total	**3,299**	**0**	**1**	**1,510**	**4,809**

Credit risk rating grade 1 comprises financial instruments for which it can be assumed that there is no credit risk. Financial instruments allocated to credit risk rating grade 2 are subject to more intensive credit management by the MAN Group. Credit risk rating grade 3 consists of impaired financial instruments.

e) Liquidity risk

Liquidity risk describes the risk that the MAN Group will have difficulty in meeting its obligations associated with financial liabilities or that it can only procure liquidity at a higher price.

To minimize this risk, cash inflows and outflows and due dates are continuously monitored and managed. Cash requirements are met both by our operating cash flow and by external financing arrangements. As a result, there were no material concentrations of risk in the past fiscal year.

Cash management for the operating units is performed centrally, to a large extent using a cash pooling process in which the cash funds of the Group companies and MAN SE are pooled every day. This allows cash surpluses and requirements to be managed in line with the needs of the Group as a whole and the individual Group companies. When the PE business was sold on December 31, 2018, cash pooling with the member companies was continued for the time being. MAN SE includes both liquidity surpluses and requirements relating to companies outside the MAN Group.

The Group's cross-border access to local cash funds is limited by applicable foreign exchange controls in certain countries (including Brazil, China, India, Russia, and South Korea). Other than that, no significant restrictions exist.

The integration with the Volkswagen Group enables the MAN Group to draw on intragroup financing. For instance, MAN SE has a line of €3 billion with Volkswagen AG, of which €2 billion has been drawn down. Short-term cash requirements are covered by money market facilities at banks (drawdowns currently €120 million). Local MAN companies have also agreed financing with the locally based Volkswagen companies in an amount equivalent to €53 million (previous year: €54 million), of which €36 million has been utilized.

There are also committed bilateral credit lines with financial institutions in the amount of €760 million (previous year: €760 million), of which €760 million (previous year: €758 million) has been utilized.

Management is informed regularly about cash inflows and outflows, as well as sources of finance.

The following table shows how the cash flows relating to liabilities, derivatives, and financial guarantees affect the MAN Group's liquidity position:

Maturity overview [1]

	12/31/2018			12/31/2017		
€ million	2019	2020–2023	> 2023	2018	2019 –2022	> 2022
Cash outflows from nonderivative financial liabilities [2]	6,084	3,001	59	4,638	3,245	61
of which financial liabilities	2,983	1,259	1	1,641	1,536	13
of which trade payables	1,437	–	–	1,925	–	–
of which other financial liabilities [3]	1,665	1,742	58	1,073	1,709	49
Cash outflows from derivatives with a negative fair value that are settled gross [2]	953	113	4	731	21	–
related cash inflows [2]	927	111	1	705	20	–
Cash outflows from derivatives with a negative fair value that are settled net [2]	16	2	–	11	2	–
Potential cash outflows from financial guarantees	14	–	–	1	–	–

[1] The following methodology was generally applied in calculating the amounts: if no contractual maturity has been agreed, the liability refers to the earliest maturity date. Variable-rate interest payments reflect the conditions at the end of the reporting period. It is assumed that the cash outflows will not occur earlier than shown.
[2] In accordance with IFRS 7, only undiscounted cash outflows from fixed contractual interest rate and principal payments are shown.
[3] The undiscounted maximum cash outflows from buyback obligations are recognized as a financial liability.

36 Related party disclosures

Related parties within the meaning of IAS 24 are persons or entities that can be influenced by MAN SE, that can exercise influence over MAN SE, or that are influenced by another related party of MAN SE.

Related parties from MAN's perspective as of December 31, 2018, are:

- TRATON AG (formerly Volkswagen Truck & Bus GmbH and Volkswagen Truck & Bus AG, now: TRATON SE) and its subsidiaries,
- Volkswagen AG and its subsidiaries and material equity investments outside of the MAN Group,
- Porsche Automobil Holding SE, Stuttgart, and its affiliated companies and related parties (Porsche Stuttgart),
- other individuals and entities that can be influenced by MAN SE or that can influence MAN SE, such as:
  - the members of the Executive and Supervisory Boards of MAN SE,
  - the members of the Executive and Supervisory Boards of TRATON SE,
  - the members of the Board of Management and Supervisory Board of Volkswagen AG,
  - associates and joint ventures,
  - unconsolidated subsidiaries.

Due to its equity investment in MAN SE, TRATON SE is the parent company and therefore a related party of MAN. This also applies to Volkswagen AG, to which the relevant shares are attributable via TRATON SE. Porsche Automobil Holding SE has the power to participate in the operating policy decisions of the Volkswagen Group and must therefore also be classified as a related party. On December 31, 2018, TRATON SE held 87.04% of MAN SE's voting rights and 86.87% of its share capital.

TRATON SE and MAN SE had a domination and profit and loss transfer agreement in place in fiscal years 2017 and 2018. The profit of €193 million for fiscal year 2017 was transferred under the domination and profit and loss transfer agreement on March 1, 2018 (previous year: loss absorption of €99 million). No dividend was therefore distributed.

Following the completion of the sale of the PE business to a Volkswagen AG subsidiary, MAN SE no longer controls those companies as of December 31, 2018. For more information, please refer to note (5). Purchases from and sales to those companies are contained in the consolidated financial statements. The outstanding balances (including obligations) at December 31, 2018, are shown in the following table together with the receivables from and liabilities to other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group. Contingent liabilities and commitments relating to the deconsolidated companies are presented in note (31).

The volume of transactions with TRATON SE, Volkswagen AG, and Porsche Stuttgart, and with other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group is shown in the following overview:

€ million	12/31/2018	12/31/2017
Sales and services to		
TRATON SE, Volkswagen AG, and Porsche Stuttgart[1]	9	31
other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group	1,720	1,493
Purchases and services received from		
TRATON SE, Volkswagen AG, and Porsche Stuttgart[1]	95	86
other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group	487	393
Receivables from		
TRATON SE, Volkswagen AG, and Porsche Stuttgart[1]	69	85
other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group	2,755	163
Liabilities (including obligations) to		
TRATON SE, Volkswagen AG, and Porsche Stuttgart[1]	3,259	2,235
other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group	3,250	2,446

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

Receivables from other Volkswagen AG subsidiaries and equity investments that are not part of the MAN Group include purchase price receivables of €1,980 million from Volkswagen due to the disposal of Power Engineering.

The liabilities to TRATON SE include the claim by TRATON SE for the transfer of MAN SE's net income for fiscal year 2018 under German GAAP amounting to €548 million (previous year: €193 million). See note (28) for further information.

The liabilities also include loans from Volkswagen AG in the amount of €2 billion (previous year: €1.95 billion). 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). The sale of receivables to subsidiaries of Volkswagen AG that are not part of the MAN Group amounted to €1,118 million in fiscal 2018 (previous year: €1,070 million). Furthermore, customer liabilities to financing companies of the Volkswagen Group are covered by standard industry buy-back guarantees, see note (31).

The following table shows the volume of relationships with unconsolidated subsidiaries and associates with which goods and services are exchanged as part of normal business transactions.

€ million	12/31/2018	12/31/2017
Revenue and other income generated with		
unconsolidated subsidiaries	9	52
associates	141	172
Goods and services purchased from		
unconsolidated subsidiaries	5	8
associates	94	165
Receivables from		
unconsolidated subsidiaries	7	25
associates	42	35
Liabilities (including obligations) to		
unconsolidated subsidiaries	26	34
associates	16	7

There is a loan receivable from joint ventures in the amount of €1 million (previous year: €2 million).

At €1,525 million (previous year: €1,453 million), in fiscal year 2018 the MAN Group generated more than 10% of its total sales revenue from sales to Volkswagen AG and Volkswagen AG subsidiaries not consolidated in MAN's consolidated financial statements. The sales revenue was generated in all segments, especially in the MAN Truck & Bus segment, and is mainly attributable to the sales financing business via Volkswagen Financial Services.

The remuneration of the members of the Executive and Supervisory Boards of MAN SE is presented in notes (37) and (38). These individuals made purchases of €4 million (previous year: €1 million) in fiscal year 2018 from companies that are related parties of the MAN Group.

The following overall amounts were paid by the MAN Group to key management personnel. To the extent that they were in office in 2018 or the previous year, the list includes members of the Executive Board of MAN SE, members of the Supervisory Board of MAN SE, and members of the Executive Board of TRATON SE. The employee representatives on the Supervisory Board who are employed by MAN Group companies also receive their regular salaries as specified in their employment contracts.

€ thousand	2018	2017
Short-term benefits	8,425	8,036
Post-employment benefits	1,038	993
	9,463	**9,029**

Pension obligations to these persons as of December 31, 2018, amounted to €2,985 thousand (previous year: €2,380 thousand).

37 Remuneration of the Executive Board

The remuneration of the members of the Executive Board was as follows:

€ thousand	2018	2017
Executive Board members in office at December 31, 2018 [1]		
Fixed remuneration [2]	2,165	1,685
Variable remuneration [3, 4]	3,665	3,216
Pension expense	838	531

€ thousand	2018	2017
Former Executive Board members [5, 6]		
Fixed remuneration [2]	–	179
Variable remuneration [3, 4]	–	450
Pension expense	–	74

[1] Dr. Uwe Lauber since March 1, 2017, and Dr. Carsten Intra since July 1, 2017
[2] Including fringe benefits
[3] 2017: correction following the preparation of the 2017 Annual Report
[4] 2018: information based on key figures currently available
[5] Josef Schelchshorn until June 30, 2017
[6] Deviations from the figures provided in the remuneration report are attributable to MAN SE (10%) and MAN Truck & Bus AG (65%) assuming 75% in total of Mr. Schelchshorn's overall remuneration.

The present value of the pension obligations to members of the Executive Board in office at year-end 2018 amounted to €2,985 thousand as of December 31, 2018. The present value of the benefit obligations to members of the Executive Board in office at the end of 2017 was €2,381 thousand as of December 31, 2017. The total pension expense amounted to €838 thousand in 2018 (previous year: €605 thousand), of which €740 thousand (previous year: €435 thousand) related to current service. The interest component is not reported as part of the pension expense. The pension expense also includes the agreed amounts recharged for Mr. Jan-Henrik Lafrentz for pension obligations outside MAN.

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

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

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

Pension payments to former Executive Board members, including amounts paid in the first year after the end of their contracts and retirement, and to their surviving dependents amounted to €2,636 thousand as of December 31, 2018 (previous year: €9,771 thousand). A total of €40,676 thousand (previous year: €42,364 thousand) was recognized as of December 31, 2018, for provisions for pension obligations to former Executive Board members and their surviving dependents.

The members of the Executive Board, including their memberships in statutory supervisory boards and comparable supervisory bodies, are listed on page 151, and more detailed information on the remuneration structure and its components is disclosed in the Remuneration Report, which is part of the Combined Management Report.

The individual remuneration of the members of the Executive Board during their term of office at MAN SE is shown in the following table:

Remuneration of the Executive Board 2018/(2017)

€ thousand	Fixed remuneration[1]	Variable remuneration[2, 3]	Pension expense	Total
Executive Board members in office at December 31, 2018				
Joachim Drees (Chief Executive Officer)[3]	692 (574)	1,229 (1,373)	264 (186)	2,185 (2,133)
Dr. Carsten Intra (since July 1, 2017)	514 (241)	922 (430)	228 (84)	1,664 (755)
Jan-Henrik Lafrentz	447 (444)	794 (790)	97 (96)	1,338 (1,330)
Dr. Uwe Lauber (since March 1, 2017)	511 (426)	720 (624)	249 (165)	1,480 (1,215)
Former Executive Board members				
Josef Schelchshorn (until June 30, 2017)[4]	– (179)	– (450)	– (74)	– (702)
Total[3]	**2,165 (1,864)**	**3,665 (3,667)**	**838 (605)**	**6,667 (6,135)**

[1] Including fringe benefits
[2] 2017: correction following the preparation of the 2017 Annual Report
[3] 2018: information based on key figures currently available
[4] Deviations from the figures provided in the remuneration report are attributable to MAN SE (10%) and MAN Truck & Bus AG (65%) assuming 75% in total of Mr. Schelchshorn's overall remuneration.

Mr. Drees has been Chief Executive Officer of MAN Truck & Bus AG since April 1, 2015. In fiscal 2018, total remuneration for his work at MAN Truck & Bus AG and MAN SE amounted to €2,185 thousand (fixed remuneration including fringe benefits of €692 thousand; variable remuneration of €1,229 thousand; €264 thousand for pensions).

Dr. Intra has been a member of the Executive Board of MAN Truck & Bus AG since April 1, 2012. In fiscal 2018, total remuneration for his work at MAN Truck & Bus AG and MAN SE amounted to €1,664 thousand (fixed remuneration including fringe benefits of €514 thousand; variable remuneration of €922 thousand; €228 thousand for pensions). In fiscal 2017, total remuneration for his work at MAN Truck & Bus AG and MAN SE amounted to €1,501 thousand (fixed remuneration including fringe benefits of €473 thousand; variable remuneration of €860 thousand; €168 thousand for pensions).

Mr. Lafrentz has been a member of the Executive Board of MAN Truck & Bus AG since July 1, 2014. In fiscal 2018, total remuneration for his work at MAN Truck & Bus AG and MAN SE amounted to €1,338 thousand (fixed remuneration including fringe benefits of €447 thousand; variable remuneration of €794 thousand; €97 thousand for pensions).

Dr. Lauber has been a member of the Executive Board of MAN Energy Solutions SE since October 1, 2014. Dr. Lauber left the Executive Board of MAN SE effective the end of December 31, 2018. No payments were made to Dr. Lauber due to his departure from the Executive Board of MAN SE. In fiscal 2018, total remuneration for his work at MAN Energy Solutions SE and MAN SE amounted to €1,480 thousand (fixed remuneration including fringe benefits of €511 thousand; variable remuneration of €720 thousand; €249 thousand for pensions). In fiscal 2017, total remuneration for his work at MAN Diesel & Turbo SE and MAN SE amounted to €1,458 thousand (fixed remuneration including fringe benefits of €511 thousand; variable remuneration of €749 thousand; €198 thousand for pensions).

38 Remuneration of the Supervisory Board

The components of the remuneration of the Supervisory Board are as follows:

€ thousand	2018	2017
Fixed remuneration	523	520
Variable remuneration	646	390
Remuneration for committee membership	175	175
Attendance fees	41	40
	1,384	**1,125**

The members of the Supervisory Board, including their memberships in other statutory supervisory boards and comparable supervisory bodies, are listed on pages 148ff., and more detailed information on the remuneration structure and its components is disclosed in the Remuneration Report, which is part of the Combined Management Report.

The individual remuneration of the active members of the Supervisory Board is shown in the following table:

Supervisory Board remuneration in € thousand

Name	Period of membership	Fixed remuneration	Variable remuneration	Remuneration for committee membership	Attendance fees	Total 2018	Total 2017
Andreas Renschler, Chairman	Full-year	–	–	–	–	–	–
Jürgen Kerner, Deputy Chairman [1]	Full-year	53	65	35	5	157	132
Prof. Dr.-Ing. Dr.-Ing. E.h. Dr. h.c. Ekkehard D. Schulz, Deputy Chairman	Full-year	53	65	35	5	157	132
Michael Behrendt	Full-year	35	43	35	5	118	101
Helmut Brodrick [1]	until 12/31/2018	35	43	18	3	99	82
Annette Danielski	since 11/05/2018	–	–	–	–	–	–
Matthias Gründler	until 05/17/2018	–	–	–	–	–	–
Dr. Julia Kuhn-Piëch	Full-year	35	43	–	2	80	63
Irmgard Maucher [1]	Full-year	35	43	–	2	80	63
Angelika Pohlenz	Full-year	35	43	–	2	80	63
Mag. Mark Philipp Porsche	Full-year	35	43	–	1	79	62
Stephanie Porsche-Schröder	since 01/23/2018	33	41	–	2	75	–
Oskar Ritsch [1]	until 03/31/2018	9	11	4	1	25	83
Karina Schnur [1]	Full-year	35	43	–	2	80	63
Erich Schwarz [1]	Full-year	35	43	–	2	80	63
Athanasios Stimoniaris [1]	Full-year	35	43	35	5	118	101
Werner Wiedemann [1]	04/01/2018 through 12/31/2018	26	32	13	3	74	–
Steffen Zieger [1]	Full-year	35	43	–	2	80	63
Members who left in 2017							54
Total 2018		**523**	**646**	**175**	**41**	**1,384**	**–**
Total 2017		**520**	**390**	**175**	**40**	**–**	**1,125**

[1] **The employee representatives have stated that they will transfer their Supervisory Board remuneration to the Hans Böckler Foundation in accordance with the guidelines issued by the German Confederation of Trade Unions (DGB).**

The employee representatives on the Supervisory Board who are employed by MAN SE or other MAN Group companies also receive their regular salaries as specified in their employment contracts. If they are members of German works councils, this is based on the provisions of the *Betriebsverfassungsgesetz* (BetrVG — German Works Council Constitution Act).

For their membership of supervisory boards of other companies in the MAN Group (including MAN Energy Solutions SE and Renk AG), Mr. Behrendt received €37 thousand (previous year: €36 thousand), Mr. Brodrick received €11 thousand (previous year: €11 thousand), Mr. Kerner received €6 thousand (previous year: €0 thousand), Ms. Kuhn-Piëch received €11 thousand (previous year: €11 thousand), Mr. Porsche received €10 thousand (previous year: €10 thousand), Ms. Porsche-Schröder received €10 thousand (previous year: €0 thousand), Mr. Ritsch received €10 thousand (previous year: €11 thousand), Ms. Schnur received €33 thousand (previous year: €25 thousand), Prof. Dr. Schulz received €11 thousand (previous year: €11 thousand), Mr. Stimoniaris received €11 thousand (previous year: €11 thousand), Mr. Wiedemann received €11 thousand (previous year: €0 thousand), and Mr. Zieger received €3 thousand (previous year: €3 thousand).

Expenses reimbursed for attending Supervisory Board and committee meetings amounted to €22 thousand in the fiscal year (previous year: €19 thousand).

39 Corporate Governance Code

The Executive Board and Supervisory Board of MAN SE issued their annual declaration of conformity in accordance with section 161 of the AktG in December 2018. The declaration of conformity is included in the Corporate Governance Statement as a separate part of the Combined Management Report, and has been published on MAN SE's website at **www.corporate.man.eu**.

40 Events after the reporting period

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

41 Segment reporting

The activities of the MAN Group are classified into the reportable segments of MAN Truck & Bus and MAN Latin America. In order to make decisions about the allocation of resources and the assessment of performance, the results of these segments are regularly reviewed by MAN SE's Executive Board in its role as chief operating decision maker. Following their classification as discontinued operations, disclosures are no longer made for MAN Energy Solutions and Renk. "Others" mainly comprises MAN's Corporate Center. Companies with no operating activities and the Scania and Sinotruk investments are allocated to the Corporate Center. Consolidation between the segments and the earnings effects of purchase price allocations in the event of the acquisition of an individual segment are reported in the "Others" item.

Description of the reportable segments:

MAN Truck & Bus is one of the leading suppliers of commercial vehicles and transportation solutions and is expanding from its core Western European market into the growth markets of Eastern Europe and Asia.

MAN Latin America is one of the largest manufacturers of trucks and buses in Brazil and supplies customers in the Brazilian market as well as other key growth markets.

The segment information represents continuing operations. The segment disclosures for the current and the previous period therefore do not include the corresponding information for discontinued operations, although it is contained in the consolidated financial statements.

Operating profit/loss is the earnings measure for assessing a segment's results of operations. Operating profit/loss is calculated as profit/loss before tax and before the financial result. Earnings effects relating to tangible and intangible assets resulting from the acquisition of an individual segment are eliminated from the operating profit/loss of that segment.

Segment information is presented in accordance with the disclosure and measurement policies applied to preparation of the consolidated financial statements. Sales revenues between the segments are transacted on an arm's length basis. Depreciation, amortization, and impairment losses relate to the intangible assets, property, plant, and equipment, other equity investments, and assets leased out allocated to the individual divisions.

The following tables contain segment-related information for fiscal year 2018.

Segment information (1/2)
Reporting period from January 1 to December 31 and as of December 31

	MAN Truck & Bus		MAN Latin America	
€ million	2018	2017	2018	2017
Segment sales revenue	**10,815**	**10,037**	**1,421**	**1,141**
Intersegment sales revenue	–127	–85	–7	–9
Group sales revenue	10,688	9,952	1,414	1,132
Segment profit or loss (operating profit or loss)	**402**	**532**	**28**	**–105**
of which depreciation and amortization	–941	–894	–38	–29
of which impairment losses	–36	–1	0	0
Share of profits and losses of equity-method investments	19	18	–	–
Equity-method investments	40	20	–	–
Capital expenditures	**611**	**583**	**69**	**74**

Segment information (2/2)
Reporting period from January 1 to December 31 and as of December 31

	Others				Group	
	Corporate Center [1]		Cons./Reconcil.			
€ million	2018	2017	2018	2017	2018	2017
Segment sales revenue	**11**	**11**	**–142**	**–101**	**12,104**	**11,087**
Intersegment sales revenue	–8	–8	142	101	–	–
Group sales revenue	3	3	–	–	12,104	11,087
Segment profit or loss (operating profit or loss)	**–79**	**–58**	**–20**	**–10**	**332**	**358**
of which depreciation and amortization	–4	–6	–14	–17	–998	–946
of which impairment losses	0	0	–	–	–36	–2
Share of profits and losses of equity-method investments	122	54	–	–	141	72
Equity-method investments	698	484	–	–	738	522
Capital expenditures	**285**	**214**	**–282**	**–211**	**683**	**661**

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

The reconciliation of total profit of the segments to the MAN Group's profit before tax and discontinued operations is presented in the following:

€ million	2018	2017
Total profit of the segments (operating profit of the segments)	**430**	**427**
Corporate Center operating loss	–79	–58
Earnings effects from purchase price allocations not attributed to the segments	–15	–18
Consolidation within business areas and within the MAN Group	–5	7
Operating profit (MAN Group)	**332**	**358**
Financial result	231	–31
Profit before tax and discontinued operations (MAN Group)	**562**	**327**

Segment information by region
Reporting period from January 1 to December 31 and as of December 31

€ million	Germany	Rest of Europe	Rest of world [1]	Total [3]
2018				
Noncurrent assets (excl. financial instruments, equity investments, and deferred taxes) at December 31	3,947	2,825	1,625	8,397
Sales revenue [2]	3,194	5,905	2,994	12,104
2017				
Noncurrent assets (excl. financial instruments, equity investments, and deferred taxes) at December 31	4,167	2,762	2,119	9,047
Sales revenue [2]	2,961	5,310	2,816	11,087

[1] Detailed segment information relating to MAN Latin America is contained in the "Segment information" table.
[2] Allocation of sales revenue to the regions follows the destination principle.
[3] Prior-year figures were adjusted.

List of Shareholdings as of December 31, 2018

Name and domicile of the company	Equity interest
I. PARENT	
MAN SE, Munich, Germany	
II. SUBSIDIARIES	
A. Consolidated companies	
1. Germany	
GETAS Verwaltung GmbH & Co. Objekt Ausbildungszentrum KG, Pullach i. Isartal	100.00%
GETAS Verwaltung GmbH & Co. Objekt Offenbach KG, Pullach i. Isartal	100.00%
GETAS Verwaltung GmbH & Co. Objekt Verwaltung Nürnberg KG, Pullach i. Isartal	100.00%
KOSIGA GmbH & Co. KG, Pullach i. Isartal	94.00%
M A N Verwaltungs-Gesellschaft mbH, Munich	100.00%
MAN GHH Immobilien GmbH, Oberhausen	100.00%
MAN Grundstücksgesellschaft mbH & Co. Epsilon KG, Munich	100.00%
MAN HR Services GmbH, Munich	100.00%
MAN Service und Support GmbH, Munich	100.00%
MAN Truck & Bus AG, Munich	100.00%
MAN Truck & Bus Deutschland GmbH, Munich	100.00%
TARONA Verwaltung GmbH & Co. Alpha KG, Pullach i. Isartal	100.00%
TORINU Verwaltung GmbH & Co. Beta KG, Pullach i. Isartal	100.00%
2. Other countries	
Centurion Truck & Bus (Pty) Ltd. t/a, Centurion	70.00%
MAN Accounting Center Sp. z o.o., Poznan	100.00%
MAN Automotive (South Africa) (Pty) Ltd., Johannesburg	100.00%
MAN Bus & Coach (Pty) Ltd., Olifantsfontein	100.00%
MAN Bus Sp. z o.o., Starachowice	100.00%
MAN Capital Corp., Pompano Beach, Florida	100.00%
MAN Engines & Components Inc., Pompano Beach, Florida	100.00%
MAN Finance and Holding S.A., Strassen	100.00%
MAN Finance Luxembourg S.A., Strassen	100.00%
MAN Hellas Truck & Bus A.E., Aspropygros	100.00%
MAN Kamion és Busz Kereskedelmi Kft., Dunaharaszti	100.00%
MAN Kamyon ve Otobüs Ticaret A.S., Ankara	100.00%
MAN Latin America Indústria e Comércio de Veículos Ltda., São Paulo	100.00%
MAN Nutzfahrzeuge Immobilien GmbH, Steyr	100.00%
MAN Truck & Bus (Korea) Ltd., Yongin	100.00%
MAN Truck & Bus (M) Sdn. Bhd., Rawang	70.00%
MAN Truck & Bus (S.A.) (Pty) Ltd., Isando	100.00%
MAN Truck & Bus Asia Pacific Co. Ltd., Bangkok	99.99%
MAN Truck & Bus Czech Republic s.r.o., Cestlice	100.00%
MAN Truck & Bus Danmark A/S, Greve	100.00%
MAN Truck & Bus France S.A.S., Evry	100.00%
MAN Truck & Bus Iberia S.A., Coslada	100.00%
MAN Truck & Bus Italia S.p.A., Dossobuono di Villafranca	100.00%
MAN Truck & Bus Mexico S.A. de C.V., El Marqués	100.00%
MAN Truck & Bus Middle East FZE, Dubai	100.00%
MAN Truck & Bus N.V., Kobbegem	100.00%
MAN Truck & Bus Norge A/S, Lorenskog	100.00%
MAN Truck & Bus Österreich GmbH, Steyr	100.00%

Name and domicile of the company	Equity interest
MAN Truck & Bus Polska Sp. z o.o., Nadarzyn	100.00%
MAN Truck & Bus Portugal S.U. Lda., Lisbon	100.00%
MAN Truck & Bus Schweiz AG, Otelfingen	100.00%
MAN Truck & Bus Slovakia s.r.o., Bratislava	100.00%
MAN Truck & Bus Slovenija d.o.o., Ljubljana	100.00%
MAN Truck & Bus Sverige AB, Kungens Kurva	100.00%
MAN Truck & Bus Trading (China) Co., Ltd., Beijing	100.00%
MAN Truck & Bus UK Ltd., Swindon	100.00%
MAN Truck & Bus Vertrieb Österreich GmbH, Vienna	100.00%
MAN Trucks Sp. z o.o., Niepolomice	100.00%
MAN Türkiye A.S., Ankara	99.99%
OOO MAN Truck & Bus Production RUS, St. Petersburg	100.00%
OOO MAN Truck and Bus RUS, Moscow	100.00%
TOV MAN Truck & Bus Ukraine, Kiev	100.00%
B. Unconsolidated companies	
1. Germany	
LoadFox GmbH, Munich	87.00%
MAN Erste Beteiligungs GmbH, Munich	100.00%
MAN Grundstücksgesellschaft mbH & Co. Gamma KG, Munich	100.00%
MAN Grundstücksgesellschaft mbH, Oberhausen	100.00%
MAN Personal Services GmbH, Dachau	100.00%
MAN-Unterstützungskasse GmbH, Munich	100.00%
Ortan Verwaltung GmbH & Co. Objekt Karlsfeld KG, Pullach i. Isartal	100.00%
2. Other countries	
ERF (Holdings) plc, Swindon	100.00%
ERF Ltd., Swindon	100.00%
LKW Komponenten s.r.o., Bánovce nad Bebravou	100.00%
MAN Financial Services Administrators (S.A.) (Pty) Ltd., Isando	100.00%
MAN Latin America Importacao, Industria e Comércio de Veículos Ltda., Resende	100.00%
MAN Truck & Bus India Pvt. Ltd., Pune	100.00%
MBC Mobile Bridges Corp., Houston, Texas	100.00%
S.A. Trucks Ltd., Bristol	100.00%
III. JOINT VENTURES	
1. Germany	
2. Other countries	
OOO Truck Production RUS, St. Petersburg	50.00%
Scania-MAN Administration ApS, Copenhagen	50.00%
IV. ASSOCIATES	
1. Germany	
Rheinmetall MAN Military Vehicles GmbH, Munich	49.00%
2. Other countries	
JV MAN AUTO - Uzbekistan LLC, Samarkand City	49.00%
Sinotruk (Hong Kong) Ltd., Hong Kong	25.00%

Name and domicile of the company	Equity interest
V. OTHER EQUITY INVESTMENTS	
1. Germany	
Car2Car Communication Consortium, Braunschweig	5.55%
FFK Fahrzeugservice Förtsch GmbH Kronach, Kronach	30.00%
Grundstücksgesellschaft Schlossplatz 1 mbH & Co. KG, Berlin	8.16%
Roland Holding GmbH, Munich	22.83% [1]
Verwaltungsgesellschaft Wasseralfingen mbH, Aalen	50.00%
2. Other countries	
FR8 Revolution Inc., San Francisco, California	12.20%
Scania AB, Södertälje	13.35% [2]

[1] Share of voting rights: 32.82%
[2] Share of voting rights: 17.37%

Governing bodies

Members of the Supervisory Board and their appointments

Andreas Renschler
Stuttgart,
Member of the Board of Management of Volkswagen AG

Chairman of the Supervisory Board

[1] Deutsche Messe AG
[2] MAN Truck & Bus AG (Chairman)
MAN Energy Solutions SE (Chairman)
Porsche AG
[3] Navistar International Corporation, U.S.A.
Sinotruk (Hong Kong) Ltd., China
[4] MAN Latin America Indústria e Comércio de Veículos Ltda., Brazil
Porsche Holding Stuttgart GmbH
Scania AB, Sweden (Chairman)
Scania CV AB, Sweden (Chairman)

Jürgen Kerner*
Frankfurt,
Executive Board member of IG Metall

Deputy Chairman of the Supervisory Board

[1] Airbus Operations GmbH
Flender GmbH
MAN Energy Solutions SE
Premium Aerotec GmbH (Deputy Chairman)
Siemens AG

Prof. Dr.-Ing. Dr.-Ing. E.h. Dr. h.c. Ekkehard D. Schulz
Krefeld,
Former Chief Executive Officer of ThyssenKrupp AG

Deputy Chairman of the Supervisory Board

[1] MAN Truck & Bus AG

Michael Behrendt
Hamburg,
Supervisory Board Chairman of Hapag-Lloyd AG

[1] Barmenia Allgemeine Versicherungs-AG (Deputy Chairman)
Barmenia Krankenversicherung a. G. (Deputy Chairman)
Barmenia Lebensversicherung a. G. (Deputy Chairman)
Esso Deutschland GmbH
ExxonMobil C. E. Holding GmbH
Hapag-Lloyd AG (Chairman)
MAN Energy Solutions SE
MAN Truck & Bus AG
Renk Aktiengesellschaft

Helmut Brodrick*
(until December 31, 2018)
Oberhausen,
Works Council Chairman of MAN Energy Solutions SE, Oberhausen plant

[1] MAN Energy Solutions SE

Annette Danielski
(since November 5, 2018)
Leinfelden-Echterdingen,
Head of Group Finance of TRATON AG

[2] MAN Truck & Bus AG

Matthias Gründler
(until May 17, 2018)
Albershausen,
Member of the Management of Volkswagen Truck & Bus GmbH

[2] MAN Truck & Bus AG
[3] Navistar International Corporation, U.S.A.
Sinotruk (Hong Kong) Ltd., China
[4] MAN Latin America Indústria e Comércio de Veículos Ltda., Brazil
Scania AB, Sweden
Scania CV AB, Sweden

Dr. Julia Kuhn-Piëch
Salzburg/Austria,
Real estate manager

[1] AUDI AG
MAN Truck & Bus AG

Irmgard Maucher*
Munich,
Member of the Works Council of MAN Truck & Bus AG

Angelika Pohlenz
Wiesbaden,
Former Secretary General of the International Chamber of Commerce (ICC), Berlin

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Mag. Mark Philipp Porsche
Salzburg/Austria,
Director of F.A. Porsche Beteiligungen GmbH

[1] MAN Truck & Bus AG
[3] Familie Porsche AG Beteiligungsgesellschaft, Austria
FAP Beteiligungen AG, Austria
SEAT S. A., Spain

Stephanie Porsche-Schröder
(since January 23, 2018)
Lochau/Austria,
Designer

[1] MAN Truck & Bus AG
[3] ItalDesign-Giugiaro S.p.A., Italy
Scania AB, Sweden
Scania CV AB, Sweden

Oskar Ritsch*
(until March 31, 2018)
Diedorf,
Chairman of the General Works Council of MAN Diesel & Turbo SE and Deputy Chairman of the Group Works Council of MAN SE

[1] MAN Diesel & Turbo SE

Karina Schnur*
Reichertshofen,
General Secretary of the Works Council of MAN Truck & Bus AG

[1] MAN Energy Solutions SE
MAN Truck & Bus AG
MAN Truck & Bus Deutschland GmbH
Renk Aktiengesellschaft

Erich Schwarz*
Steyr/Austria,
Chairman of the Works Council of MAN Truck & Bus Österreich GesmbH

[3] MAN Truck & Bus Österreich GesmbH, Austria

Athanasios Stimoniaris*
Munich,
Chairman of the Group Works Council of MAN SE, the SE Works Council, and the General Works Council of MAN Truck & Bus AG

[1] MAN Truck & Bus AG (Deputy Chairman)
Rheinmetall MAN Military Vehicles GmbH
Volkswagen AG
TRATON AG (Deputy Chairman)
TSV München von 1860 GmbH & Co. KGaA

Steffen Zieger*
Leipzig,
Chairman of the General Works Council of
MAN Truck & Bus Deutschland GmbH

[1] MAN Truck & Bus Deutschland GmbH
(Deputy Chairman)

Werner Wiedemann*
(until December 31, 2018)
Rehling,
Chairman of the General Works Council of
MAN Energy Solutions SE

[1] MAN Energy Solutions SE

* Elected by the workforce
As of December 31, 2018, or date of departure
[1] Membership of statutory German supervisory boards
[2] Membership of statutory German supervisory boards, Group appointments
[3] Membership of comparable German or foreign governing bodies
[4] Membership of comparable German or foreign governing bodies, Group appointments

Supervisory Board committees of MAN SE

(As of December 31, 2018)

Presiding Committee
Andreas Renschler (Chairman)
Michael Behrendt
Jürgen Kerner
Prof. Dr.-Ing. Dr.-Ing. E.h. Dr. h.c. Ekkehard D. Schulz
Athanasios Stimoniaris
Werner Wiedemann

Audit Committee
Annette Danielski (Chairwoman)
Michael Behrendt
Helmut Brodrick
Jürgen Kerner (Deputy Chairman)
Prof. Dr.-Ing. Dr.-Ing. E.h. Dr. h.c. Ekkehard D. Schulz
Athanasios Stimoniaris

Nomination Committee
Andreas Renschler (Chairman)
Michael Behrendt
Prof. Dr.-Ing. Dr.-Ing. E.h. Dr. h.c. Ekkehard D. Schulz

Members of the Executive Board and their appointments

Joachim Drees
Stuttgart,
Chairman of the Executive Board

[1] MAN Energy Solutions SE
Renk Aktiengesellschaft
Veritas AG
Volkswagen Financial Services AG
[3] Sinotruk (Hong Kong) Ltd., China

Dr. Carsten Intra
Munich,
Chief Human Resources Officer and *Arbeitsdirektor* (Executive Board member responsible for employee relations)

[4] MAN Truck & Bus Österreich GesmbH, Austria

Jan-Henrik Lafrentz
Munich,
Chief Financial Officer

[1] MAN Energy Solutions SE
Rheinmetall MAN Military Vehicles GmbH
[2] MAN Truck & Bus Deutschland GmbH
[4] MAN Truck & Bus Österreich GesmbH, Austria

Dr. Uwe Lauber
(until December 31, 2018)
Laufenburg,
Chief Executive Officer of MAN Energy Solutions SE

[4] MAN Diesel & Turbo Shanghai Co., Ltd., China
MAN Diesel & Turbo Shanghai Logistics Co., Ltd., China
MAN Energy Solutions AG, Switzerland
MAN Energy Solutions China Production Co., Ltd., China

As of December 31, 2018, or date of departure
[1] Membership of statutory German supervisory boards
[2] Membership of statutory German supervisory boards, Group appointments
[3] Membership of comparable German or foreign governing bodies
[4] Membership of comparable German or foreign governing bodies, Group appointments

Executive and management boards of Group companies

MAN Truck & Bus AG
Munich

Joachim Drees, Chief Executive Officer
Dr. Ulrich Dilling (until November 30, 2018)
Dirk Große-Loheide
Dr. Carsten Intra
Michael Kobriger (since December 1, 2018)
Jan-Henrik Lafrentz
Göran Nyberg (since September 17, 2018)
Dr. Frederik Zohm

MAN Latin America Indústria e Comércio de Veículos Ltda.
São Paulo/Brazil

Antonio Roberto Cortes, Chairman
Paulo Marcos Barbosa

MAN Energy Solutions SE
Augsburg

Dr. Uwe Lauber, Chief Executive Officer
Frank Burnautzki
Wayne Jones
Arnd Löttgen
Dr. Peter Park
Wilfried von Rath

Renk Aktiengesellschaft
Augsburg

Dipl.-Ing. (FH) Florian Hofbauer,
Chairman of the Executive Board
Christian Hammel

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FURTHER INFORMATION

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RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Combined Management Report includes a fair review of the development and performance of the business and the position of the MAN Group, together with a description of the material opportunities and risks associated with the expected development of the MAN Group.

Munich, February 8, 2019

MAN SE

The Executive Board

Joachim Drees

Dr. Carsten Intra

Jan-Henrik Lafrentz

INDEPENDENT AUDITOR'S REPORT

To MAN SE, Munich

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of MAN SE, Munich, and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2018, income statement, reconciliation of comprehensive income for the period, statement of cash flows, statement of changes in equity for the financial year from January 1 to December 31, 2018, and the notes including a summary of significant accounting policies. In addition, we have audited the group management report of MAN SE, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2018. We have not audited the content of statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the above mentioned statement on corporate governance referred to above..

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Hedge Accounting

2. Completeness and measurement of provisions for warranty obligations arising from sales

3. Accounting treatment of goodwill

4. Disposal of the "Power-Engineering" business area

Our presentation of these key audit matters has been structured in each case as follows:

a) Matter and issue

b) Audit approach and findings

c) Reference to further information

Hereinafter we present the key audit matters:

1. Hedge Accounting

a) The companies of the MAN Group use a variety of derivative financial instruments to hedge against currency, commodity and interest rate risks arising from their ordinary business activities. The executive directors' hedging policy is documented in corresponding internal guidelines and serves as the basis for these transactions. Currency risk arises primarily from sales and procurement transactions and financing denominated in foreign currencies. The means of limiting this risk include entering into currency forwards, currency options and combined cross-currency interest rate swaps. Interest rate hedges are entered into for the purpose of achieving an economically sensible ratio of variable to fixed interest rate exposures.

Derivative financial instruments are recognized at fair value as of the balance sheet date. The positive fair values of all of the derivatives used for hedging purposes amounted to EUR 64 million as of the balance sheet date, while the negative fair values amounted to EUR 44 million. Insofar the financial instruments used by the MAN Group are effective hedges of future cash flows in the context of hedging pursuant to the requirements of IFRS 9, the effective portion of the changes in fair value is recognized in other comprehensive income over the duration of the hedging relationships until the maturity of the hedged cash flows (cash flows hedges). Changes in the value of derivative financial instruments caused by changes in the spot price are shown under the cash flow hedge reserve, as usual. Changes in the value of hedging instruments caused by changes in forward rates and changes in the value of the so-called cross-currency basis spread are shown under the line item "cost of hedging reserve", which was newly introduced under IFRS 9. As of the balance sheet date, a cumulative amount of EUR –10 million was recognized outside profit or loss in equity (cash flow hedge reserve EUR –11 million and cost of hedging reserve EUR 1 million) as effective fair value changes before income taxes.

At the time of transitioning from hedge accounting under IAS 39 to IFRS 9 at the beginning of the financial year, MAN exercised the option of implementing the transition prospectively, without restating prior-period figures. We believe that these matters were of particular significance for our audit due to the high complexity and number of transactions as well as the extensive accounting and disclosure requirements of IFRS 9 and IFRS 7.

b) As part of our audit, we assessed, with the assistance of our internal specialists, the changes to processes and systems in connection with the introduction of IFRS 9, among other things. A particular focus was placed on assessing how the effects from transition in relation to the introduction of IFRS 9 were determined. Both the treasury management system and the corresponding adjustments in the consolidation system were subject to separate examinations. In addition, we assessed the contractual and financial bases and the accounting treatment adopted including the impact on equity and profit or loss from the various hedging relationships. Together with our specialists, we also assessed the Company's internal control system with regard to derivative financial instruments, including the internal activities to monitor compliance with the hedging policy. In addition, for the purpose of auditing the fair value measurement of financial instruments, we also assessed the methods of calculation employed on the basis of market data. In addition, we also obtained bank confirmations in order to assess the completeness of and to examine the fair values of the recorded transactions. With regard to the expected cash flows and the assessment of the effectiveness of hedges, we essentially conducted a retrospective assessment of past hedging levels. In doing so, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors were substantiated and sufficiently documented.

c) The Company's disclosures on hedge accounting are contained in notes 35 "Derivative Finanzinstrumente und Sicherungsstrategien" to the consolidated financial statements.

2. Completeness and measurement of provisions for warranty obligations arising from sales

a) In the consolidated financial statements of MAN SE EUR 582 million in provisions for obligations arising from sales are reported under the "Other provisions" balance sheet item. These obligations arise under statutory and contractual guarantee obligations and for ex gratia settlements with customers. Warranty claims are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. An estimate is also made of the discount rate. In addition, assumptions must be made about the nature and extent of future warranty and ex gratia claims. These assumptions are based on qualified estimates.

From our point of view, this matter was of particular importance for our audit because the recognition and measurement of this material item is to a large extent based on estimates and assumptions made by the Company's management.

b) With the knowledge that estimated values result in an increased risk of accounting misstatements and that the measurement decisions made by management have a direct and significant effect on consolidated net profit/loss, we assessed the appropriateness of the carrying amounts, including by comparing these figures with historical data and using the measurement bases presented to us. Furthermore, we assessed that the interest rates with matching terms were properly derived from market data. We evaluated the entire calculations (including discounting) for the provisions using the applicable measurement inputs and assessed the planned timetable for utilizing the provisions.

In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by management were sufficiently documented and supported to justify the recognition and measurement of the provisions for warranty obligations arising from sales.

c) The Company's disclosures on other provisions are contained in notes 4n) "Sonstige Rückstellungen" and 27 "Sonstige Rückstellungen" to the consolidated financial statements.

3. Accounting treatment of goodwill

a) The intangible assets reported in the consolidated financial statements of MAN SE include EUR 583 million in goodwill. The Company allocates goodwill to the subgroups within the MAN SE Group. As part of the regular impairment testing of goodwill, the Company compares the carrying amount of the subgroups against their respective recoverable amount. In general, the recoverable amount is calculated on the basis of the value in use. The value in use is calculated using discounted cash flow models on the basis of the respective subgroup's five-year operating plan prepared by management and acknowledged by the Supervisory Board and extrapolated based on assumptions about long-term growth rates. The discount rate used is the weighted average cost of capital for the relevant reporting segment. The result of this measurement depends to a large extent on management's assessment with regard to the future cash inflows of the respective subgroups, and on the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the measurement models, this matter was of particular importance for our audit.

b) As part of our audit, we assessed, among other things, the method used to perform impairment tests and the calculation of the weighted cost of capital. We evaluated the appropriateness of the future cash inflows used in the measurement, including by comparing this data with the current budgets in the five-year plan prepared by management and acknowledged by the Supervisory Board, and through reconciliation with general and sector-specific market expectations.

   With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, due to the materiality of the goodwill, we also performed our own sensitivity analyses for the sub-groups, respectively, (comparison of carrying amounts and recoverable amounts) and determined that the respective goodwill were sufficiently covered by the discounted future cash flows. Overall, we consider the measurement inputs and assumptions used by management to be in line with our expectations and to lie also within a range that we consider reasonable.

c) The Company's disclosures on goodwill are contained in notes 2b) "Konsolidierungskreis" and 15 "Immaterielle Vermögenswerte" to the consolidated financial statements.

4. Disposal of the "Power-Engineering" business area

a) Effective December 31, 2018, MAN SE sold its Power-Engineering business, comprising the MAN Energy Solutions and Renk divisions, to Volkswagen Klassik GmbH, Wolfsburg. For this reason, the "Power Engineering" business area was designated as a disposal group in accordance with IFRS 5 as of October 25, 2018, and classified as a discontinued operation. The disposal proceeds amounting to EUR 1,980 million corresponded to the carrying amount of the associated net assets. Accordingly, no impairment was recognized upon reclassification of this business area as held for sale. As part of deconsolidation as of December 31, 2018, a disposal gain of EUR 48 million was recognized at the Group level.

   In our view, this matter was of particular significance for our audit due to the complexity and the material effects on the Group.

b) To assess whether the accounting treatment of the disposal of the "Power-Engineering" business area was appropriate we examined, inter alia, as part of our audit, the company law principles as well as the terms of the underlying sale agreements. In this regard, we examined and assessed whether the conditions had been met for designation during the financial year as a disposal group in accordance with IFRS 5, the resulting effects on the measurement of assets and liabilities and the conditions for classification as a discontinued operation as well as the deconsolidation of the "Power-Engineering" business area. We were able to satisfy ourselves that the accounting for the sale of the shares in the companies belonging to the "Power-Engineering" business area and the further associated assets and liabilities was documented comprehensibly and that the total effect on profit or loss recognized had been determined appropriately.

c) The Company's disclosures relating to the disposal of the "Power Engineering" business area are contained in sections 4q) "Zur Veräußerung bestimmte langfristige Vermögenswerte und aufgegebene Geschäftsbereiche" and 5 "Aufgegebene Geschäftsbereiche und zur Veräußerung bestimmte langfristige Vermögenswerte" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB.

The other information comprises further the remaining parts of the annual report — excluding cross-references to external information — with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 16, 2018. We were engaged by the supervisory board on July 25, 2018. We have been the group auditor of the MAN SE, Munich, without interruption since the financial year 2010.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Klaus Schuster.

Munich, February 8, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Frank Hübner	Klaus Schuster
German Public Auditor	German Public Auditor

GLOSSARY

Committee of Sponsoring Organizations of the Treadway Commission (COSO): Internationally recognized framework for enterprise risk management and internal control.

Compliance: Adherence to statutory provisions, internal corporate policies, and ethical principles.

Contract liability: Obligation to transfer goods or services to a customer for which it has already provided or is yet to provide a consideration.

Derivatives/derivative financial instruments: Financial instruments whose value is derived primarily from the price and price volatility/expectations of an underlying (e.g., stocks, foreign currency, interest-bearing securities).

Equity method: Method of including investments that are not consolidated in the investor's consolidated financial statements in cases where the investor has significant influence over the investment's financial and operating policy decisions. The carrying amount of the investment is adjusted for any changes in the investor's share of the investment's equity. These changes are usually reported in the owner's income statement.

Equity ratio: Indicates the ratio of total equity to total capital.

Equity-to-assets ratio: Indicates the extent to which noncurrent assets (intangible assets, property, plant, and equipment, and investments) are covered by equity.

Fair value: Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing, and independent parties in an arm's length transaction.

Function expenses: Function expenses comprise the cost of sales, distribution expenses, and general and administrative expenses.

International Financial Reporting Standards (IFRSs): Internationally applicable accounting standards that are designed to ensure comparability of financial accounting and reporting. They are issued by the International Accounting Standards Board (IASB), an international private body. IFRSs also comprise those International Accounting Standards (IASs) that are still effective.

Invested capital: Invested capital is calculated as total operating assets (intangible assets, property, plant, and equipment, assets leased out, inventories, and receivables) less non-interest-bearing liabilities (trade payables, prepayments received, and payments received from customers for assets leased out). Prepayments received are only deducted if they have already been used in order processing.

Net cash flow: Net cash flow represents the excess funds from operating activities. It is calculated as cash flows from operating activities less cash flow from investing activities attributable to operating activities.

Net liquidity/net financial debt: Net liquidity/net financial debt comprises cash and cash equivalents, loans to Group companies, and marketable securities, less financial liabilities.

Operating profit: Earnings measure for calculating operating return on sales and thus for assessing and measuring the performance of MAN Group divisions. Operating profit reflects the Company's actual business activity and documents economic output in the core business.

Operating profit after tax: Earnings measure for calculating return on investment. Using various international income tax rates, an overall average tax rate of 30% is assumed when calculating the operating profit after tax.

Operating return on sales: Ratio of operating profit to sales revenue.

$$\textit{Operating return on sales} = \frac{\textit{Operating profit}}{\textit{Sales revenue}}$$

Option: Agreement under which the purchaser is entitled, but not obligated, to acquire (call option) or sell (put option) the underlying asset at a future date for a predefined price. By contrast, the seller of the option is obligated to sell or purchase the asset and usually receives a premium for granting the option rights.

Other comprehensive income (OCI): OCI is a separate category within total equity. It comprises gains and losses that are recognized in the balance sheet but not in the income statement, in particular from the fair value measurement of other equity investments and hedging transactions, from the translation of the financial statements of foreign Group companies included in the consolidated financial statements, and from remeasurements of pension plans, after adjustment for deferred taxes.

Projected unit credit method: Method used to measure pension obligations in accordance with IAS 19 that reflects expected future pay and pension increases in addition to the vested pension rights and entitlements existing at the end of the reporting period.

Return on Investment (ROI): Ratio to calculate the return on invested capital for a particular period by calculating the ratio of operating profit after tax to invested capital.

$$\textit{ROI} = \frac{\textit{Operating profit after tax}}{\textit{Invested capital}}$$

Swap: Agreement between two counterparties to swap cash payments over a certain period. Prime examples are currency swaps, under which principal amounts denominated in various currencies are exchanged, and interest rate swaps, which usually entail the exchange of fixed and variable interest payments in the same currency.

Total cost of ownership (TCO): Sum of all incurred costs, for the acquisition, use, and potential disposal of an asset.

THE MAN GROUP: SEVEN-YEAR OVERVIEW

€ million	2018 [1]	2017 [1]	2016	2015	2014	2013 [2]	2012
Order intake	**13,896**	**12,397**	**14,357**	**14,381**	**15,332**	**16,207**	**15,889**
of which Germany	3,906	3,268	3,677	3,486	3,267	3,570	3,252
of which other countries	9,990	9,129	10,680	10,895	12,066	12,637	12,637
Order intake by division							
MAN Truck & Bus	12,640	11,296	10,342	10,059	9,269	9,551	9,150
MAN Latin America	1,432	1,190	861	1,047	2,253	2,955	2,870
MAN Energy Solutions	–	–	2,808	2,949	3,280	3,407	3,510
Renk	–	–	486	483	666	504	525
Others/Consolidation	–176	–88	–139	–157	–135	–210	–166
Sales revenue	**12,104**	**11,087**	**13,564**	**13,702**	**14,286**	**15,861**	**15,772**
of which Germany	3,194	2,961	3,273	3,252	2,906	3,388	3,170
of which other countries	8,910	8,126	10,290	10,449	11,380	12,472	12,602
Sales revenue by division							
MAN Truck & Bus	10,815	10,037	9,243	8,997	8,412	9,251	8,822
MAN Latin America	1,421	1,141	861	1,047	2,253	2,955	2,870
MAN Energy Solutions	–	–	3,113	3,305	3,273	3,390	3,780
Renk	–	–	496	487	480	485	476
Others/Consolidation	–131	–90	–150	–134	–133	–221	–176
Order backlog at December 31	**3,770**	**3,000**	**5,641**	**6,037**	**6,244**	**5,776**	**6,094**
of which Germany	1,183	833	1,280	1,164	1,216	1,114	1,067
of which other countries	2,587	2,166	4,360	4,872	5,028	4,662	5,027
Headcount at December 31	**38,430**	**54,297**	**53,824**	**55,030**	**55,903**	**56,102**	**56,513**
of which German companies	21,952	31,441	31,444	31,720	32,309	32,430	32,272
of which companies outside Germany	16,478	22,856	22,380	23,310	23,594	23,672	24,241
Permanent employees at December 31	**35,214**	**50,455**	**49,982**	**51,234**	**51,995**	**52,182**	**52,481**
Subcontracted employees at December 31	**2,638**	**2,584**	**1,562**	**802**	**879**	**1,327**	**1,802**
Annual average headcount	**38,080**	**53,968**	**54,135**	**55,267**	**55,587**	**55,999**	**55,963**
MAN share data							
Common shares at December 31 (in €)	90.15	95.40	94.33	92.70	92.16	89.25	80.75
Common shares, high (in €)	97.70	97.60	95.69	99.02	93.80	89.74	102.45
Common shares, low (in €)	90.15	93.54	90.51	90.20	87.99	82.35	70.76
Common shares, price/earnings ratio at December 31 [3]	30.4	90.0	–	90.9	104.7	–	65.7
Preferred shares at December 31 (in €)	91.60	93.99	93.15	91.90	91.31	88.56	75.50
Preferred shares, high (in €)	96.10	96.39	94.50	97.70	93.25	88.95	85.51
Preferred shares, low (in €)	90.40	93.25	90.30	89.13	87.70	75.35	50.54
Preferred shares, price/earnings ratio at December 31 [3]	30.8	88.7	–	90.1	103.8	–	61.4
Dividend per share (in €) [4]	5.10	5.10	5.10	5.10	5.10	5.10	1.00
Earnings per share (IAS 33) (in €) [3]	2.97	1.06	–0.12	1.02	0.88	–1.47	1.23
Equity per share (in €)	40.5	40.7	38.2	37.0	35.9	36.4	37.7

[1] 2017 and 2018: as a result of the sale of the Power Engineering business with effect as of December 31, 2018, this business area is disclosed separately under "Profit/loss from discontinued operations, net of tax" in the income statement. 2017 figures were adjusted.

[2] 2013: adjusted to reflect the retrospective application of the income statement, balance sheet, and statement of cash flows structure used by Volkswagen

[3] For continuing operations

[4] MAN SE does not distribute any further dividends from 2014 onward as a result of the DPLTA. Instead, TRATON SE agreed to make the annual cash compensation payment of €5.10 (net of corporate income tax and solidarity surcharge) as determined by court per common or preferred share for the full fiscal year to each MAN SE free float shareholder. Since the DPLTA was terminated with effect from midnight (0:00) on January 1, 2019, by way of notice of extraordinary termination, the agreed cash compensation payment was made for the last time for fiscal 2018.

€ million	2018[1]	2017[1]	2016	2015	2014	2013[2]	2012
Noncurrent assets	12,442	13,391	12,795	11,203	10,534	9,949	11,746
Inventories	2,305	3,397	3,246	3,058	3,095	3,112	3,373
Other current assets	3,855	2,712	2,602	3,070	3,384	8,338	3,426
Marketable securities and cash and cash equivalents	1,150	782	796	779	525	1,138	1,367
Total equity	5,685	6,125	5,850	5,565	5,485	5,227	5,632
Pension obligations	488	590	624	496	603	452	591
Noncurrent and current financial liabilities	4,236	3,101	2,995	2,515	2,485	3,627	5,299
Prepayments received	–	655	705	789	819	852	908
Miscellaneous liabilities and provisions	9,342	9,810	9,264	8,745	8,145	12,379	7,482
Total assets/capital employed	**19,751**	**20,282**	**19,438**	**18,110**	**17,538**	**22,537**	**19,912**
Sales revenue	**12,104**	**11,087**	**13,564**	**13,702**	**14,286**	**15,861**	**15,772**
Cost of sales	–9,904	–8,996	–11,033	–11,107	–11,695	–13,101	–12,499
Gross profit	**2,200**	**2,091**	**2,531**	**2,594**	**2,591**	**2,760**	**3,273**
Other income and expenses	–1,868	–1,734	–2,327	–2,502	–2,207	–2,451	–2,304
Operating profit[1,2]	**332**	**358**	**204**	**92**	**384**	**309**	**969**
Earnings effects from purchase price allocations	–	–	–	–	–	–	–110
Gains/losses from nonrecurring items	–	–	–	–	–	–	–231
Net interest expense	–	–	–	–	–	–	–312
Financial result	231	–31	–155	3	–142	–137	–
Profit before tax	**562**	**327**	**49**	**95**	**242**	**172**	**316**
Income tax	–126	–171	–55	64	–100	–377	–124
Profit/loss from discontinued operations, net of tax	250	166	–	–10	124	–308	–
Profit/loss after tax	**686**	**321**	**–7**	**150**	**267**	**–513**	**192**
Noncontrolling interests	11	10	12	–10	–13	–11	–12
Withdrawal from/transfer to reserves	–	–	–	–	–	545	–33
Total dividend paid by MAN SE[3]	**–**	**–**	**–**	**–**	**–**	**21**	**147**
Depreciation and amortization of, and impairment losses on, noncurrent assets (from 2013 including assets leased out)	–1,034	–948	–1,014	–1,047	–905	–980	–706
Capital expenditures and financing							
Property, plant, and equipment, and intangible assets	683	660	854	688	605	558	754
Equity investments	0	1	6	20	5	4	175
Research and development costs	670	731	881	791	718	635	–
Research and development expenditures	–	–	–	–	–	–	830
Net cash provided by/used in operating activities	544	268	833	1,162	–695	136	–84
Net cash used in investing activities attributable to operating activities	–235	–628	–831	–667	–154	–526	–1,233
Net cash flow (free cash flow until 2013)	380	–326	2	495	–849	–390	–1,317
Key performance indicators							
Operating return on sales (%)	2.7	3.2	1.5	0.7	2.7	1.9	–
RoS (%)	–	–	–	2.9	3.0	3.0	6.1
ROCE (%)	–	–	–	5.1	5.8	6.9	13.9

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