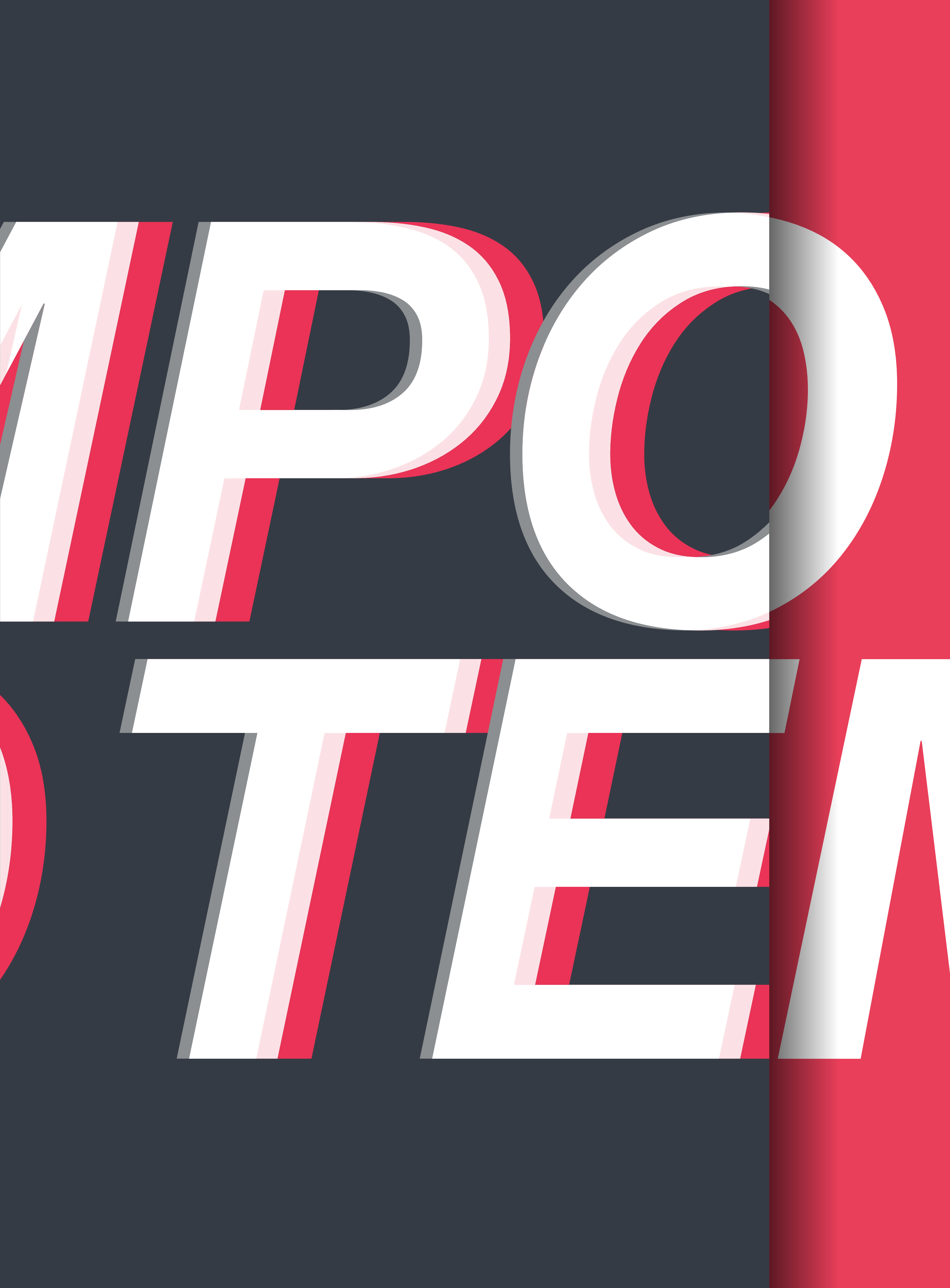
2017 ANNUAL REPORT

TEMPO

Engineering the Future – since 1758.

MAN SE



TEMPO

We will see more changes in the next ten years than we have in the last five decades. Innovative solutions in the fields of transportation and energy are becoming increasingly important, and demand for them is growing rapidly.

We are putting this development to good use – with new concepts and products, cooperation initiatives and services. We are advising major cities on how to develop a modern transportation infrastructure. We are automating the transportation of goods. We are moving away from components to become a system provider, a one-stop shop for drives along with monitoring, consulting, and other types of services.

If we want to meet the challenges of the future successfully, we have to rise to them today – of that much we are sure. This is why we are engineering the future of MAN and our customers right here, right now.
By upping the tempo.

Joachim Drees, Chief Executive Officer of MAN SE

Soon blocked: late afternoon sees vehicle after vehicle line up on Munich's Ludwigstraße.

IN

A CITY

A model for the future: separate bus lanes guarantee that the buses can get through quickly and are set to be converted into bus corridors.

Munich

4:30 p.m.

As soon as people start to finish work, things get really busy. Because Munich is expanding constantly, the number of cars fighting for space on its roads is also rising, which drives up pollutant emissions and makes the Bavarian capital even noisier. The City of Munich's public utilities provider and its transportation operator are working to solve this problem. Together with the MAN Transport Solutions consultancy, they are devising a future-proof concept to further expand the public transportation network.

MOTION

Working together toward an electric bus fleet: Stefan Sahlmann, Head of MAN Transport Solutions, Ralf Willrett, Head of MVG's Bus division, and Ingo Wortmann, SWM Director for Mobility and responsible for MVG (from left to right).

Stefan Sahlmann gets to the heart of the complex task ahead: "The future of Munich's transportation infrastructure lies in continuous renewal, in expanding the structures that are already in place, and in switching to new drive types." An industrial engineer by trade, he is heading up the team at MAN Transport Solutions, a consultancy created by MAN Truck & Bus to support transportation companies and fleet operators in navigating the path to alternative drives – be it for their buses or trucks. A team of six people develops solutions for infrastructure and fleet design, ascertains energy needs, and works out strategies to meet these needs in a cost-efficient way. The experts are also happy to answer any questions about maintenance concepts and service. As part of this endeavor, MAN Truck & Bus, Munich's transportation operator MVG, and its public utilities provider SWM have entered into an innovation partnership.

MVG has plans to gradually electrify its entire bus fleet. This requires electric vehicles to become just as cost-efficient as their diesel-powered counterparts, one step at a time. "This may happen by 2030 and is a big step for us," Ralf Willrett, Head of the Bus division at MVG, says. Another goal is to make public transportation even more flexible and attractive, especially for people who still prefer driving. Willrett explains that in light of these challenges, the partners are striving for a continuous expansion of the existing network. Ingo Wortmann, SWM Director for Mobility and responsible for MVG, says: "The existing transportation network is being pushed to its limits, so we believe urgent action is required. In order to make our services even more attractive and efficient, we are focusing on dedicated busways and separate lanes for public transportation, to name a few."

Willrett describes this process, which MVG and SWM have initiated and which they hope to bring to completion with the help of MAN Truck & Bus, as the dawn of a new era. After all, simply replacing combustion engines with electric ones and swapping diesel tanks for battery packs is not enough. Electrifying an entire public transportation network is a mammoth task. "We are taking into account all aspects of the transition," Sahlmann, Head of MAN Transport Solutions, explains. This includes planning new routes and optimizing existing vehicle schedules – i.e., the number of journeys each vehicle has to complete. Charge management and new operating procedures also have a key role to play.

A system transformed

The MAN Truck & Bus portfolio already includes vehicles powered by gas as well as hybrid solutions and so-called bus trains. These buses with trailers attached to them are 23 meters long and can accommodate around 130 passengers, boosting the city's transportation capacity by up to 30%. Around 50 bus trains from MAN Truck & Bus are now in operation in Munich, dispatched primarily to relieve pressure on heavily frequented routes. However, Stefan Sahlmann stresses that at the end of the day, the decisive factor in creating future-proof public transportation is electric mobility. MAN Truck & Bus's first generation of electric city buses is due to launch before 2020 – after which the buses will also be in operation on the roads of the Bavarian capital.

The bus train can accommodate 130 people: the number of these blue tractor vehicles and trailers is on the rise in the Bavarian capital.

Raising the profile: MVG plans to offer its customers an even more extensive network in the future.

The MVG experts and the team at MAN Transport Solutions come together in regular workshops in a quest to fully electrify Munich's bus operations. Sahlmann is clearly confident: "If you want to master the complex requirements of electric mobility, you have to prepare for the introduction of electric buses meticulously and plan their deployment extensively." The work his team does is based on data – mobility data. "The first thing we need is a fundamental analysis: how do the buses drive, how are they used? What parameters have a particularly strong impact on how much energy they use? What does the profile of the journey look like? How much traffic is there on that route at a particular time of day? We basically have to map the worst-case scenario," Sahlmann explains. The worst-case scenario is a traffic jam, which is where energy use is particularly high.

Naturally, an electric vehicle can get stuck in a traffic jam the same way a car running on fuel can, which is why the MAN Transport Solutions team is focusing on developing solutions to make public transportation not just more eco-friendly, low-emission, and quieter, but also more intelligent. Along with new, innovative solutions for energy management, this also includes proposals for shorter routes or optimized bus stop networks. "If I only have to change twice instead of four times, that saves me a lot more time than if the bus goes three kilometers an hour faster," Sahlmann says, while Ingo Wortmann, who works for SWM, adds: "That is exactly how we are going to make our public transportation more attractive."

Driver training

When it comes to large-scale projects like this one, ultimately every detail counts. "The buses' range is something we are devoting a lot of attention to," says Willrett, who works as Head of the Bus division at MVG. This is because the buses would normally charge overnight and is something Sahlmann is keeping an eye on: "If it so happens that after charging overnight, the bus runs out of battery before it can complete the journeys required for the day, we will look for the right time to charge it between vehicle rotations, either en route or at the depot." Be that as it may, there are plenty of other hurdles to overcome – from the route in question and time spent on the road through driver training. With that in mind, MAN Transport Solutions also offers training measures enabling drivers to make the most of the efficiency gains expected from their vehicle in their daily work. After all, it is also about the person behind the wheel.

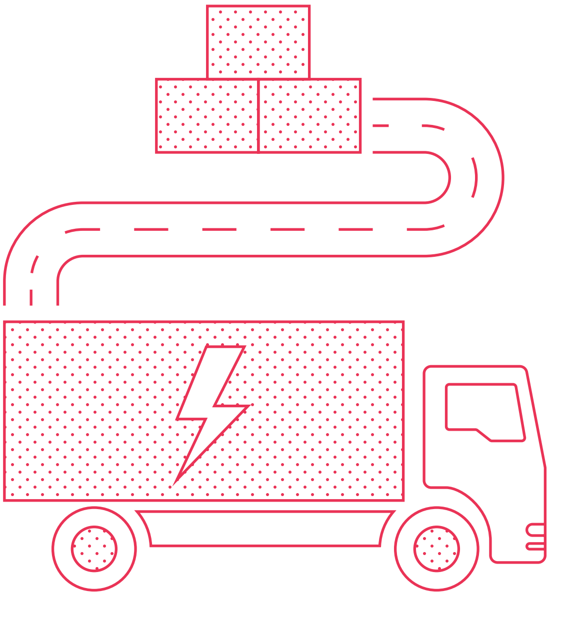
Full of energy: setting the course for the future

Electric platform for trucks and buses

Growing cities, booming online sales – no wonder alternative drives that make intercity traffic less noisy and lower emissions are becoming increasingly important. MAN Truck & Bus is focusing on electric drives when it comes to last-mile distribution and urban transportation. The company is working on a comprehensive range of electric vehicles for medium- and heavy-duty distribution, as well as for city buses. At the heart of these vehicles is the electric drivetrain. It is designed in a way that means it can be used to power both distribution trucks and city buses of the future electric generation as a universal modular element.

A field test for electric trucks

The Council for Sustainable Logistics (Council für nachhaltige Logistik – CNL) and MAN Truck & Bus are working together to develop electric trucks for inner-city delivery operations. CNL's members include 17 of Austria's largest retail, logistics, and production companies – with names like dpd, Hofer, Metro, REWE, and Spar. In 2018, these companies will receive nine battery-driven trucks from the TGM range to road test in real-life everyday conditions. MAN Truck & Bus intends to use the insights gained as a result of this process to develop this new technology further. Serial production of electric trucks is scheduled to start in 2021.



QUIET

Resende, Brazil

6:00 a.m.

Morning has barely broken, and high-tech robots are already hard at work. MAN Latin America of today is showing what truck production of tomorrow could look like.

A prototype worth seeing: the fully electric e-Delivery has a range of 200 kilometers and will be launched in 2020.

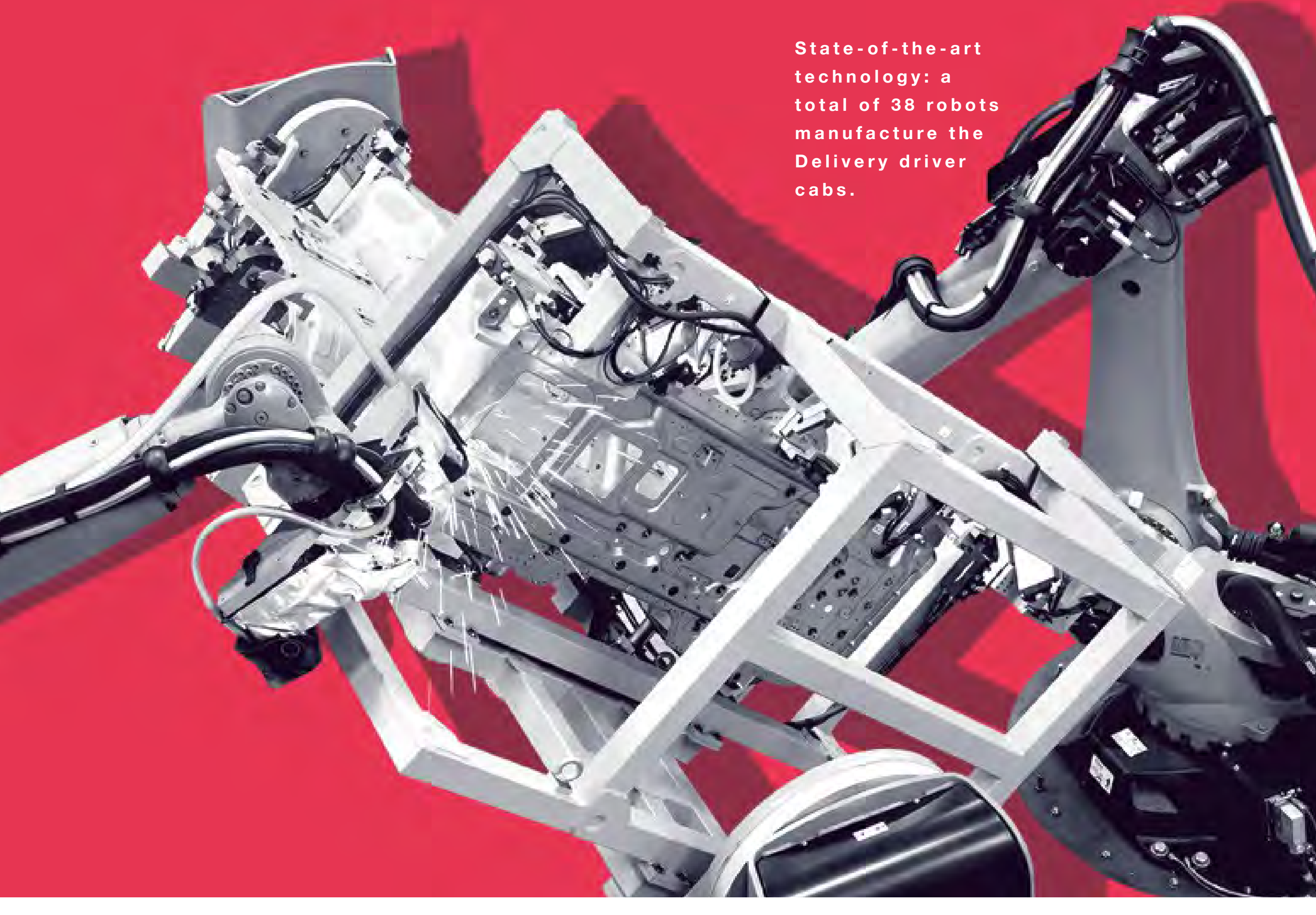
There is whirring and clattering going on. All of a sudden, sparks begin to fly as one of the welding robots gets to work. Together with other fully automatic helpers, it has 2,500 positions to weld every five minutes. The new smart factory in Resende, a town located between Rio de Janeiro and São Paulo, is a precision lab. An advanced Industry 4.0 concept steers 38 robots, making the smart factory's manufacturing process for driver cabs on the new Delivery series 60% automated. The production space at the Resende plant was expanded to almost 5,000 square meters in 2017. The area where driver cabs for the Delivery range are produced, alone, has grown by one third.

REV

The new Delivery vehicles were presented at the 2017 Fenatran, Latin America's key trade show for commercial vehicles, their weight ranging from 3.5 to 13 tons. The Resende plant will begin production of the e-Delivery, a fully electric truck with a total weight of between nine and eleven tons and the first of its kind in this category, in 2020. Until production gets underway, prototypes will be road tested in major Brazilian cities.

MAN Latin America plans to move development up a gear after CEO Antonio Roberto Cortes forecasted high growth in the light-duty commercial vehicles segment in Brazil – and, indeed, the rest of the world – in the years to come. With this in mind, MAN Latin America intends to increase the percentage small trucks make up of its total revenue from just under one third to 40%. “The e-Delivery marks a milestone in our history,” Cortes makes clear.

The growing demand for light-duty trucks is linked to the gradual recovery of the Brazilian economy. For the first time in two years, the country’s gross domestic product headed north again in 2017. At the same time, rapid growth in online sales is fueling the delivery and parcel service boom. Vans with a load capacity of up to 13 tons are in particular demand in these segments. With a driving range of some 200 kilometers, the e-Delivery also appeals to suppliers of beverages, with brewery Ambev one of the first to test it. By developing this electric distribution truck, MAN Latin America is making a giant leap toward a digital and ecological future.



State-of-the-art technology: a total of 38 robots manufacture the Delivery driver cabs.

VOLUTION

ON

From steering actuators and cameras all the way to radars: a whole range of control units and assistance systems are required to securely connect two semitrailer combinations in a platoon.

A9 near Ingolstadt

9:20 a.m.

Revolution has come to the cockpit – to the digital test field on the highway between Munich and Nuremberg, to be precise. Two MAN Truck & Bus semi-trailer combinations will move in so-called platoons here, driving at up to 80 kilometers an hour, only about 15 meters apart. An electronic drawbar connects the vehicles to each other safely, which is what makes this space-saving and fuel-efficient convoy possible. Special WiFi enables them to communicate with each other and makes automated driving possible.

THE

1 Antenna

Antennas transmit signals – which is how the vehicles exchange data. The signal is transmitted via ITS-G5, a WiFi standard that was developed for vehicle-to-vehicle communication.

2 Camera

Other road users have an impact on the semitrailer combinations' driving. Cameras record what happens around the vehicles, evaluate the images, and forward the data to the semi-automated system.

3 Brake system

As soon as the first semitrailer combination brakes, the second one also has to react, which is why, as part of this project, MAN is upgrading its brake system to include an interface connecting the vehicles together.

4 Radar

Radars transmit electromagnetic waves. These are reflected off other vehicles or objects and provide information about their location and speed.

5 Lidar

To make driving in platoons possible, MAN is equipping the vehicles with lidar sensors, which measure light pulses to calculate the distance between the semitrailer combinations and the distance to the surrounding objects down to the last centimeter.

6 Steering actuator

In order for automated driving in platoons to be a viable option, the vehicles' movements must be coordinated, which is why MAN is installing actuators.

GO

A semitrailer combination driving on a highway in Germany has to stay 50 meters behind the vehicle in front of it. Vehicles in a platoon can move closer together until they are about 15 meters apart – a distance guaranteed by the electronic drawbar.

The two semitrailer combinations will be driving on the A9 highway from May 2018 onward, just once or twice a week at first and without any cargo. As the year goes on, the scope of the testing will be expanded to include regular distribution runs with boxes and parcels. The idea is for these high-tech semitrailer combinations to then shuttle between the DB Schenker Logistics Centers in Munich and Nuremberg up to three times a day. The driver behind the wheel of the first semitrailer combination sets the direction and speed, while the second one follows in its slipstream.

The pilot project forms part of a cooperation initiative in place between MAN Truck & Bus, DB Schenker, and the Fresenius University of Applied Sciences. Its aim is to test how practical platooning is as a solution and how safe the corresponding system is – both on the roads and as part of logistics processes. Gerhard Klein, Engineering Central Head at MAN Truck & Bus, is confident: “Projects like this one make us forerunners in researching the scope of automated driving, which will contribute considerably to improving safety and taking the pressure off the driver in the future.” The project partners have plenty of questions to clarify: in what conditions does it make sense to use platoons? How can the vehicles be linked together in moving traffic? And: how much fuel can you save depending on different weather and wind conditions? Initial answers to these questions will be available in December 2018.

The studies MAN Truck & Bus has carried out so far show a lot of potential. “The extent to which platooning can lower fuel consumption depends on the position of the vehicle in question,” says Klein. This also goes hand in hand with cutting CO_2 emissions. Since the semitrailer combinations drive very close to each other, they also need less space on what tend to be congested highways.

Gerhard Klein believes that “Autonomous driving is an important asset we have for optimizing the entire logistics chain further.” As its cooperation with DB Schenker continues, MAN will combine platooning with digital solutions to develop customer-focused business models. Ewald Kaiser, Chief Operating Officer responsible for Freight at DB Schenker, also believes platooning presents considerable opportunities for the freight industry: “Connected and autonomous driving will revolutionize the transportation of the future.”

Automation in test mode

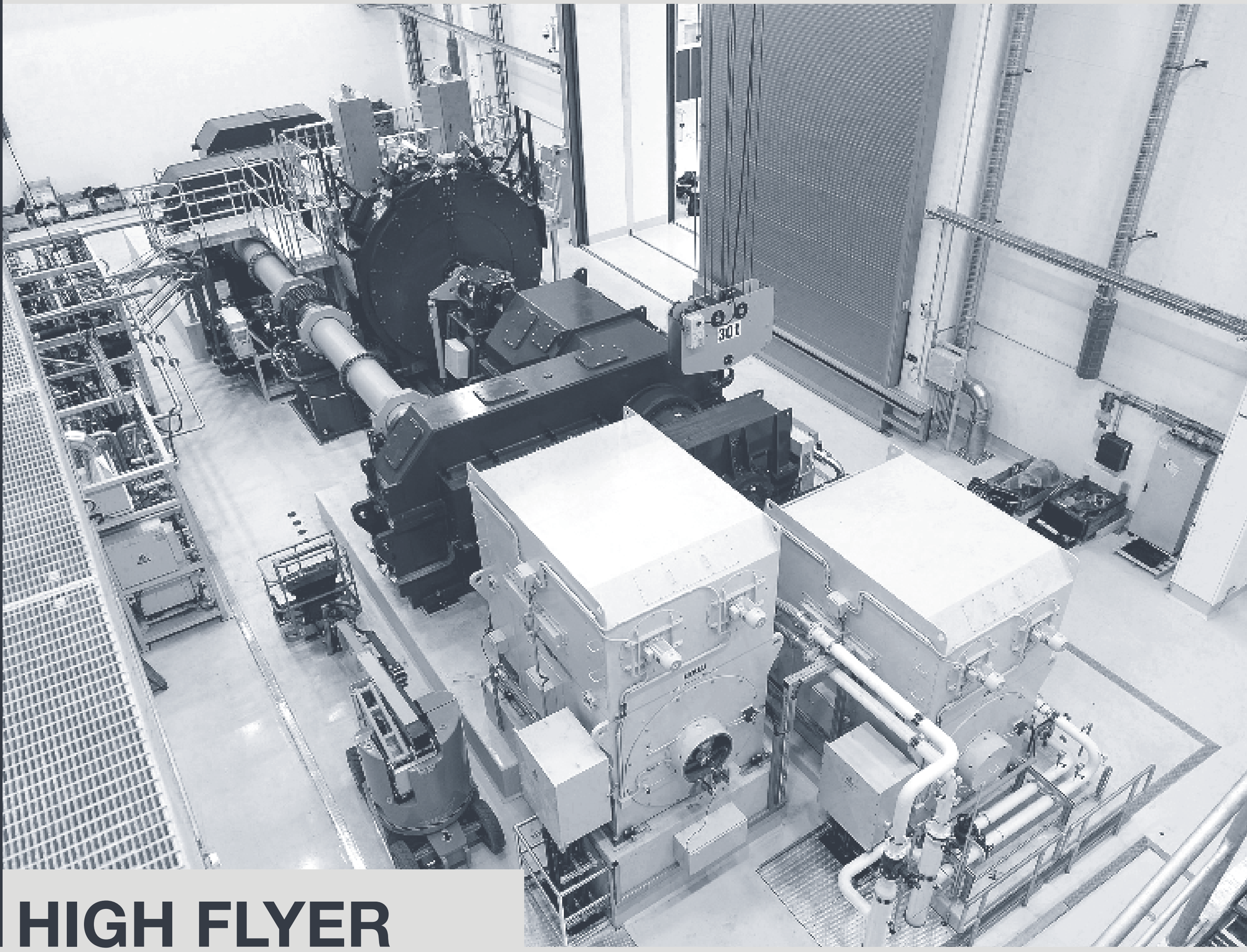
Construction: safety first

MAN is also playing a pivotal role in a project that focuses on automated and driverless safety vehicles for roadwork on highways. The project, known under the aFAS abbreviation in German, is funded by the German Federal Ministry for Economic Affairs and Energy. Even though they have highly visible warning equipment, safety vehicles are still frequently involved in rear-end collisions. MAN has therefore joined seven other partners from the fields of industry, research, and administration to develop a prototype driverless safety vehicle that follows the machinery used in mobile roadwork. As part of this cooperation, MAN is responsible for the driving function, the radio communication, the human-machine interface, and the vehicle as a whole. The plan is to road test the prototype at the start of 2018.

In the Port of Hamburg without a driver

Preparations are underway at MAN Truck & Bus for another pilot project: autonomous trucks are due to be road tested as part of a pilot run in an area of the Port of Hamburg from 2020 onward. The first stage of the testing will take part in a closed area in the container terminal, while the second step is set to involve the use of driverless MAN Truck & Bus vehicles as shuttles to the empty container depot. The Port is particularly well-suited for this road test – after all, it has a less complicated architectural design than a city does, the traffic flow is less dense, and there are fewer road users such as cyclists. The project has been brought to life in conjunction with one of the main themes of the Intelligent Transport System World Congress, which Hamburg will host in 2021.

HIGHLIGHTS 2017

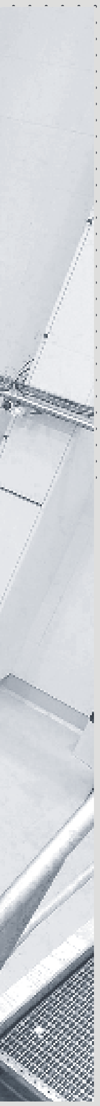


HIGH FLYER

Giant gearbox testing system: produced by Renk, for Rolls-Royce.

A milestone for MAN subsidiary Renk: the testing system it built for engine manufacturer Rolls-Royce is the largest and most powerful in the world. “This is a unique piece of equipment capable of testing gear units with an output of up to 100 megawatts,” Jens Schneider, Project Manager at Renk Test System GmbH, says. He adds: “It is the largest order in our company’s history.” The testing system was initially built at the Augsburg plant, and summer 2017 then saw the first engine gearbox tested at the customer’s facility in Brandenburg – just 36 months after receiving the order.

Rolls-Royce is working on the next generation of aircraft engines. Renk built the giant testing system, which weighs 400 tons, for the world’s most powerful aerospace gearbox: Rolls-Royce intends to use its UltraFan engine to make aviation history. The engine is due to launch in 2025 and is set to use less fuel than its traditional counterparts thanks to improved efficiency and reduced weight.

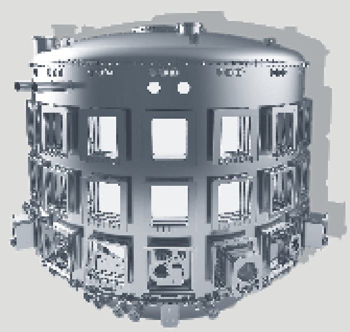


THE POWER OF THE SUN

A new way to generate electricity: why bother splitting atoms when you can melt them, releasing enormous quantities of energy in the process? The zero-emission and resource-efficient fusion reactors would be the perfect solution to meet global energy needs. That is exactly what the International Thermonuclear Experimental Reactor in Cadarache in the south of France is working toward. MAN Diesel & Turbo has also been involved in the development process since 2012.
It signed another contract to manufacture central components in the summer of 2017. MAN is to provide 13 port stubs that will then be installed in the reactor's vacuum vessel. "Our experts are involved in building a fusion reactor that might soon show us that we can generate energy from atoms the same way we do with the sun," Dr. Uwe Lauber, Chief Executive Officer of MAN Diesel & Turbo, explains.

"We're proud to be part of what is currently the most ambitious energy project in the world."

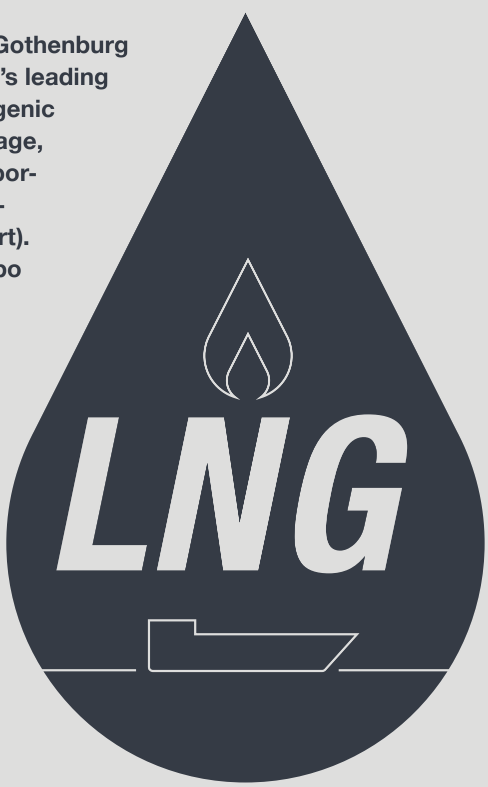
Dr. Uwe Lauber, Chief Executive Officer of MAN Diesel & Turbo



The reactor's vacuum vessel weighs around 8,000 tons and shields the plasma from the outside world.

RIDING THE WAVES

Sailing along the Strait of Messina at 15 knots: the first LNG-fueled ferry has been in operation between Sicily and mainland Italy since 2018. The MAN Cryo system supplies fuel for its three dual-fuel engines and was delivered in November 2017. The ferry can carry 1,500 passengers and 290 vehicles.
MAN Cryo is based in Gothenburg and is one of the world's leading manufacturers of cryogenic equipment for the storage, distribution, and transportation of liquefied natural gas (or LNG for short). This MAN Diesel & Turbo brand does not just develop equipment for marine gas fuel systems, it also works on offshore and onshore bunkering solutions.



MARITIME ENERGY

Investing in the future: in early 2017, MAN Diesel & Turbo acquired a 40% stake in Aspin Kemp & Associates (AKA), a Canadian family-run company specializing in onboard power supply, energy management, and electric propulsion systems for maritime applications.
"AKA's specialized expertise links battery storage systems and marine engines, bringing us one step closer to our strategic goal of further establishing ourselves as a principal system supplier for energy management on board ships," says Dr. Uwe Lauber, Chief Executive Officer of MAN Diesel & Turbo.

QUITE THE SMA

Highly complex guide vane segments for gas turbines are the first components in serial production that MAN Diesel & Turbo has produced using 3D printing.

Oberhausen

9:45 a.m.

A sunny spring morning at the turbomachinery plant in Oberhausen. Dr. Christopher Antes is ready for his interview. Today, the spotlight is on 3D printing. As far as the Senior Vice President for Turbomachinery at MAN Diesel & Turbo is concerned, additive manufacturing is the future. Not only does it enable the company to speed up its development processes and save money, it also opens up a whole new world of geometries and structures for components.

Eyes firmly on the road ahead: Dr. Christopher Antes sees major potential in industrial 3D printing. 3D technology makes swift development, greater efficiency, and new geometries a reality for components.

3D printing means the guide vane segments that go into an MAN gas turbine can be printed in a single piece. In the past, they would consist of twelve separate guide vane parts.

Dr. Antes, MAN Diesel & Turbo is the world's first manufacturer to produce guide vane segments for gas turbines using 3D printing. Out of all components, why that one?

It makes the most financial sense to use 3D printing for components weighing one kilogram or less. Guide vane segments, which regulate the flow of air in a gas turbine, lend themselves exceptionally well to this: they are ten centimeters long and weigh around 300 grams. Our tests have shown that the material quality and functionality of a 3D component are just as good as those we see in parts produced using traditional manufacturing methods. That was an important achievement and the first step toward serial production.

So you are saying that quality and functionality hold up well. Does this new technology offer any other advantages?

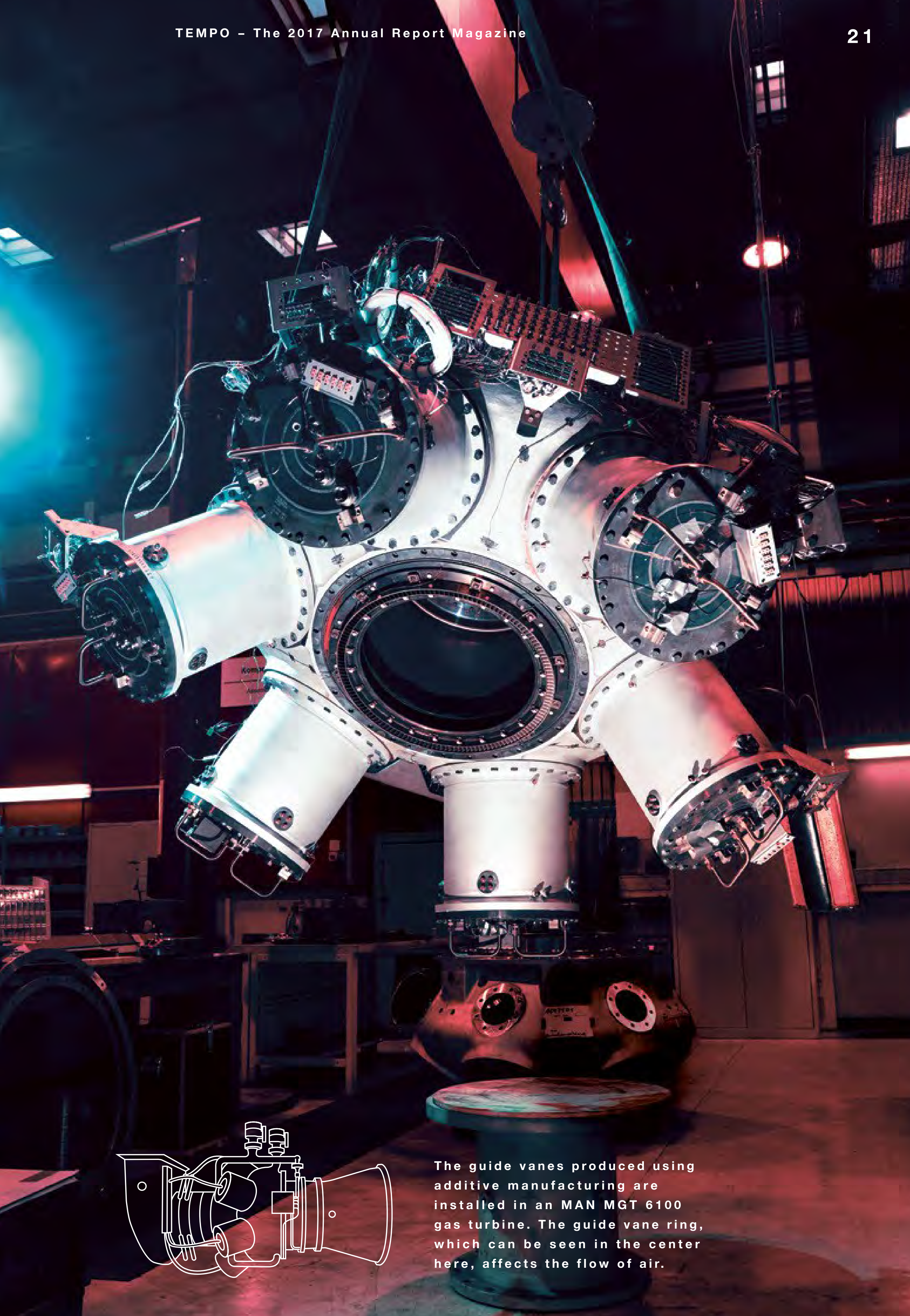
In the past, we would first shape the individual parts of the guide vane ring from a block of metal using lathes and milling machines before assembling them together. 3D printing enables us to create completely new geometries: in a single piece without any seams. We build up larger parts of the ring using a high-power laser to melt the powdered metal, which then forms several layers upon solidifying and gives the object its desired shape. The guide vane ring has gone from having 144 parts to just twelve, which reduces gaps between the components of the gas turbine and helps to seal the air in. This gives us a huge advantage because it makes the turbine more efficient.

What does 3D printing mean for the production process?

It means we can manufacture products like the guide vane segments quicker, more efficiently, at a lower cost, and with more flexibility. The benefits can already be reaped during the development period. It takes around 18 months to develop a new guide vane using traditional production methods. With 3D printing, we can halve the time to market, or in our case, the time to serial production. To do this, we work with a so-called digital twin, a virtual model of the real-life machine we use to design, simulate, and optimize the guide vane, which we can then print out and test as a prototype. The fact that all our processes are digital and that we have slashed the number of interfaces also saves us time.

Up until now, you have only used additive manufacturing for serial production of guide vane segments. What other products are suitable for 3D printing?

For the time being, the use of 3D printers will pay off anywhere we can develop structures that would have been impossible to realize using traditional methods. For example, we are currently trialing 3D printing for compressor impellers, one of the key components of MAN turbomachinery. Using additive manufacturing, we can cut material usage by 15 through 30%. Not only does this drive down the price, it also improves functionality: the lighter the impeller, the quicker it can rotate, provided it is still just as stable. In turn, this improves efficiency while letting us use smaller engines, which also saves energy.



The guide vanes produced using additive manufacturing are installed in an MAN MGT 6100 gas turbine. The guide vane ring, which can be seen in the center here, affects the flow of air.

Fascinating precision: inside the 3D printer, a high-power laser melts the powdered metal into several layers, creating complex geometries that would not have been possible with conventional methods.

You mentioned greater flexibility. At what point will you achieve more flexible processes?

For example in the after-sales business: in the future, we will be able to produce spare parts on call worldwide, cutting delivery times. It also means we will be able to cut our stocks and free up capital. Plus, our customers will benefit from improved efficiency and lower costs as a result of us being able to reprint worn-out components instead of having to replace them completely.

3D printing is evolving constantly. How do you build up the expertise you require?

That is exactly why we have set up the MAN Center for Additive Manufacturing here in Oberhausen. We are investing some €2.6 million in this product- and location-independent expert center, where a team of materials engineers, component designers, and production technologists will be testing the different areas the benefits of additive manufacturing can be extended to. At the same time, we are in a constant dialog with scientists – one of our cooperation partners is the Fraunhofer Institute for Laser Technology in Aachen.

So you have the researchers on board. Do you already know to what extent 3D printing will shape the production of tomorrow?

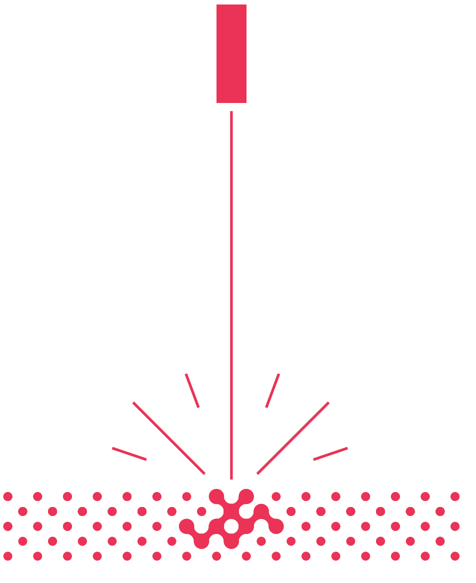
Its technology has the potential to grow by between 20 and 35% a year. Additive manufacturing is an integral part of our journey toward a smart factory and the industrial Internet of things. It will help us to achieve individual mass production. Plus, the fact that the entire workflow is digital, from developing the CAD model all the way to printing it out, makes our processes simpler, quicker, and safer. Identifying and making the most of the opportunities offered by digitalization while developing new production methods is pivotal as far as MAN is concerned. It is a fascinating job.

3D printing

"Additive manufacturing" refers to a process where metal, plastic, or ceramic materials are used to manufacture a three-dimensional model layer by layer, which is where the term "3D printing" comes from. This method is worlds apart from traditional techniques like lathing and milling, which start with a block of metal and cut away the excess to create the product. Additive manufacturing is evolving at the speed of light and is used increasingly in areas like mechanical and automotive engineering, aviation, or medical engineering.

Selective laser melting

3D printing covers a range of processes. MAN Diesel & Turbo uses selective laser melting, which accounts for an 80% share of the market. This involves a high-power laser that melts metal powder, which then takes the shape predefined in the CAD model when it solidifies. Another method that is commonly used is additive manufacturing by powder nozzle, which allows the metal powder to be injected into the nozzle using the flow of air, melted with a laser, and deposited into the desired structure.



Last check: the 3D-printed guide vane segments fit perfectly together. The components make sure the gas turbine can work efficiently.

QUICK AND

Stuttgart

12:00

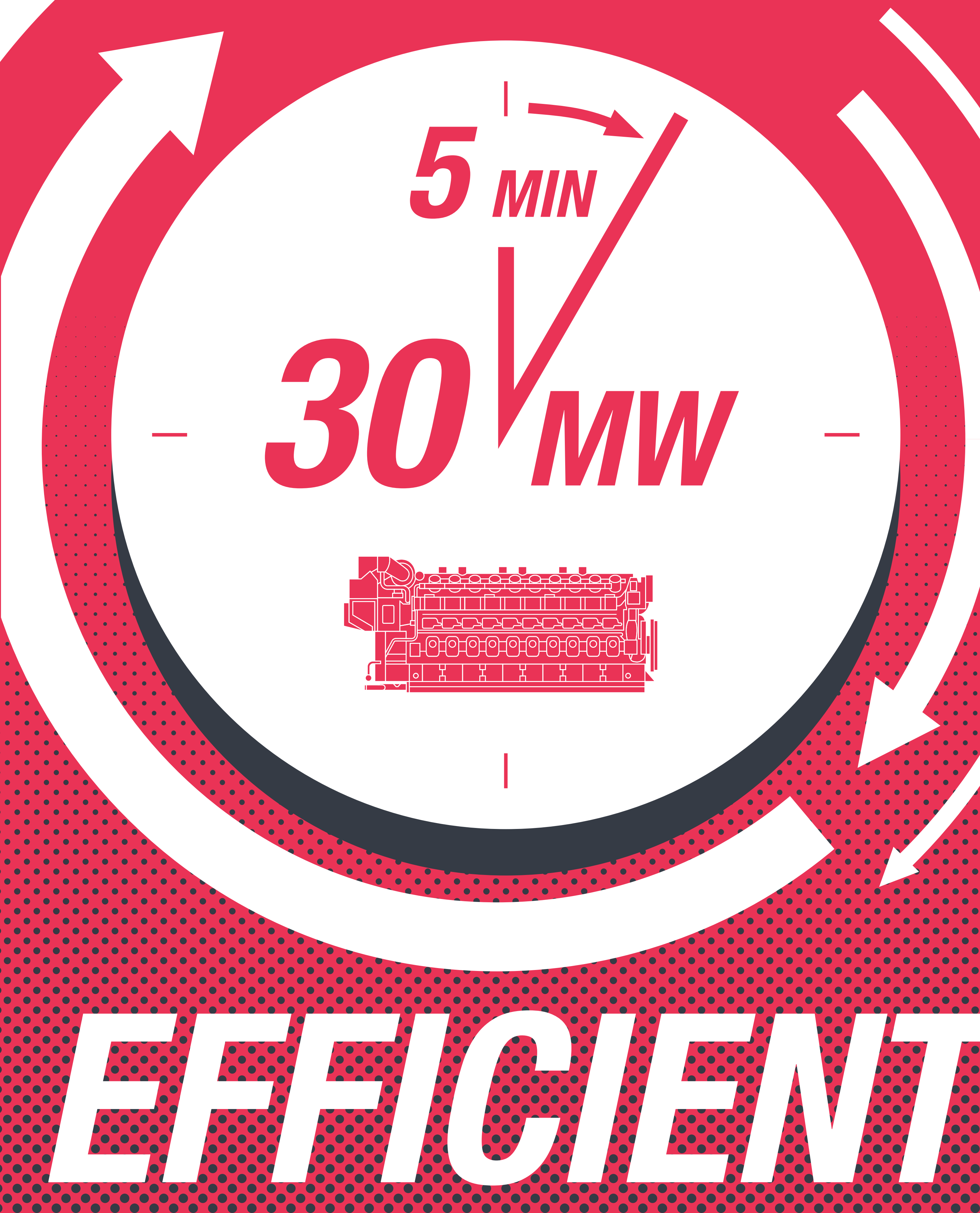
Germany is working hard: machines and computers are running, canteens and household kitchens are a hive of activity. By the time midday rolls around, demand for electricity reaches its peak. Time for quick-response power plants.

Hajo Hoops is proud – you can hear it in his voice. The Senior Sales Manager for Power Plants at MAN Diesel & Turbo in Augsburg has every reason to be – after all, his company is not just supplying components for this type of plant, which can be started up in just a few minutes if needed. MAN Diesel & Turbo is also planning and building a comprehensive gas-engine combined heat and power plant for energy provider EnBW in Stuttgart-Gaisburg. “Okay, not the bricks and mortar, but we are responsible for the entire technical solution, the interior, so to speak,” says Hoops.

The project includes three gas engines supplying over 30 megawatts of electricity. The waste heat generated as a result is also converted into up to 30 megawatts of district heat. Along with additional new peak load boilers, the plant will replace an old coal power station as of the beginning of 2019. This project is a radical modernization of the EnBW site on the Neckar river, a contribution to the energy transition as far as Diana van den Bergh, a project manager who works for the energy provider, is concerned. “The modernization will reduce CO_2 emissions at the site by up to 60,000 tons a year,” she says. And since the 75,000-square-meter coal pit is no longer needed, the city can find an alternative use for it.

Hoops believes decentralized cogeneration of the kind that is implemented in Gaisburg to be a “key component for the future supply of energy.” Quick-response gas power plants can be turned on and off in no time at all, for instance if renewable energy supply starts to fluctuate or peak loads are reached. “Generating electricity and heat together makes sense both financially and ecologically,” Hoops explains, adding that this is a considerably more efficient use of fuel. Hoops is adamant: “Plants like this one are more than just technology to bridge the gap – they will be needed for the foreseeable future, and for that reason demand will also rise.” There is another advantage, too: no modifications are required to run the plants on biomethane or synthetic natural gas in the future.

Three MAN Diesel & Turbo gas engines will power the new plant in Stuttgart-Gaisburg. The plant can then be turned on and off in no time at all, which makes the site considerably more flexible.



HIGHLIGHTS 2017

HOME AWAY FROM HOME

Offering even more comfort and a practical, top-of-the-range interior: the new driver cabs of the latest TG series from MAN Truck & Bus make truckers feel at home wherever they are. The MAN TGX cab comes, among others, with a fully retractable fridge, new storage and lighting features, and an acoustic package that considerably reduces noise levels further. Upgraded safety and assistance systems, along with the RIO Box, an innovative telematics module, round off the range of features on offer.

The upgraded MAN TGX driver cab offers comfort and security behind the wheel.

YEAR OF THE LION

It looks even more formidable, radiating power and efficiency: the new edition of the MAN Lion's Coach was presented in the summer of 2017 – equipped with technically innovative features like an optimized drivetrain and a large number of assistance systems. It took part in the 2017 Busworld Awards Competition, beating eleven opponents to come out on top and scoop the Grand Coach Award, as well as other accolades in the Comfort Label and Design Label categories. The next coup came in November 2017: the Lion's Coach won the 2018 Innovation Prize awarded by busplaner, the German trade magazine.

Very popular with the customers: the new MAN Lion's Coach

OUT ON THE FIELDS

Boasting an impressive low-end torque while drastically reducing noise pollution and saving fuel: with a 12.4-liter engine boasting up to 517 horsepower, the Fendt 1000 Vario is the world's most powerful series-produced tractor. The engine was designed by the Engine Competence Center of MAN Truck & Bus, and its supporting structure providing maximum impact to the front wheels gives the tractor outstanding maneuverability. It is also extremely fuel-efficient. The thousandth Fendt 1000 Vario was delivered in December 2017: all the way to Canada.

The Fendt 1000 Vario is powered by a specially designed MAN engine.

A NEW KIND OF VARIETY

Tailor-made to suit customer requirements: available as a closed panel van or a combi van with windows, with a crew or a chassis cab and with a permissible gross vehicle weight of 3.0 to 5.5 tons, the MAN TGE from MAN Truck & Bus is the company's answer to the countless challenges arising in day-to-day transportation and haulage tasks. In launching this model, the company has expanded its portfolio, which now includes vehicles with a permissible gross vehicle weight of 3 to 44 tons, thereby evolving into a full-range supplier. The first mass-produced TGE rolled off the production line in 2017 and launched in Germany, Austria, the Netherlands, and Switzerland. It is now available in another eight European countries. The TGE is assembled at VW's brand-new plant for commercial vehicles in Września, Poland.

State-of-the-art maintenance management, MAN workshops with flexible opening hours, 24-hour roadside assistance: customers of the new MAN TGE benefit from many advantages.

TGE

SERVICE FROM

Hook of Holland, Netherlands

2:15 p.m.

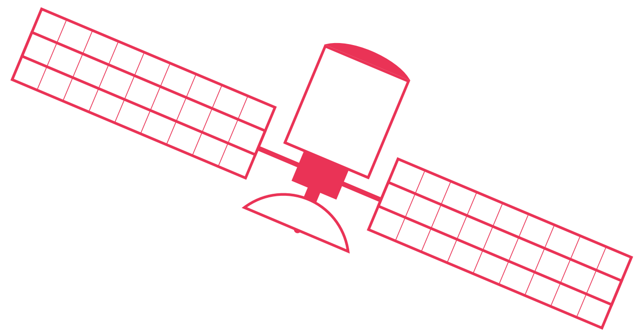
Passengers are gathered on the ship's rail. Seagulls circle. The engines are making the ship vibrate slightly. The Stena Hollandica casts off. Its helmsman skillfully maneuvers the ferry through the harbor. Depending on wind and current, it will take five and a half to eight and a half hours to get to the port of Harwich, England.

The Stena Hollandica's voyage across the North Sea is powered by four MAN 48/60CR engines. The crew on board is predominantly responsible for monitoring the engines. Since January 2017, the chief engineer on the bridge has had another special card up the sleeve of his navy blue uniform. The engines are equipped with over 200 sensors constantly measuring all key operating values before transmitting them to MAN Diesel & Turbo.

Centers all over the world

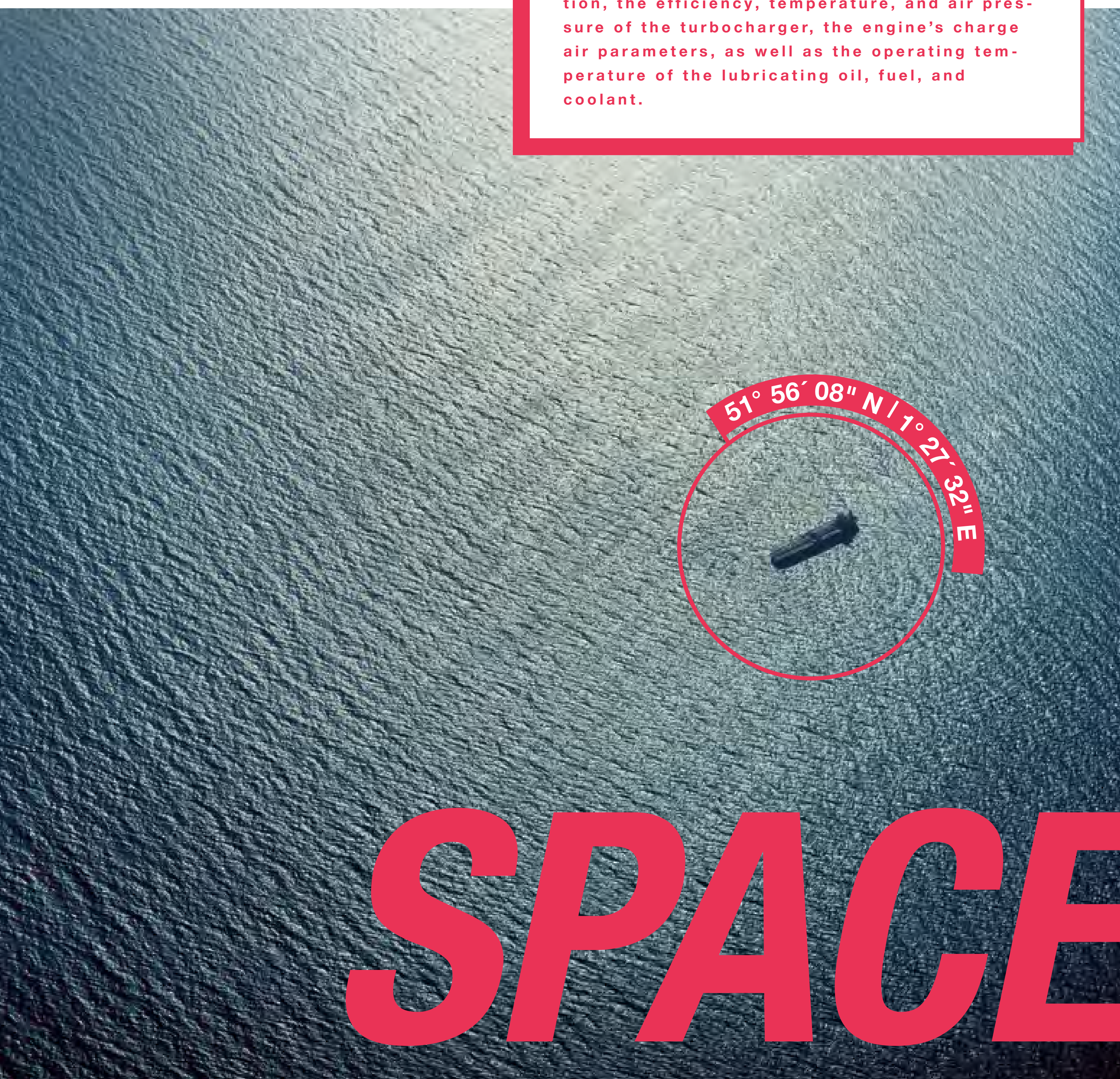
The parameters that have been measured can be accessed by all PrimeServ Online Service Centers in Germany, Australia, and the U.S.A. The employees work around the clock to monitor the connected engines and to analyze the data that is transmitted. They track the functions of over 200 power plant and marine engines all over the world on their screens, including the engines of the Stena Hollandica, which cuts through the waves at a speed of up to 22 knots. The information that is collected and transmitted via satellite includes the fuel used and, of course, the exhaust gas temperature and the charge air pressure.

Continuous monitoring: the employees working at PrimeServ Online Service Centers in Germany, Australia, and the U.S.A. track the performance data and functions of over 200 marine and power plant engines across the globe.



Extensive transfer of data

All the relevant parameters of the marine and power plant engines monitored are transmitted to the MAN PrimeServ Online Service via satellite: speed, the number of hours the engine is in operation for, fuel used, current consumption, the efficiency, temperature, and air pressure of the turbocharger, the engine's charge air parameters, as well as the operating temperature of the lubricating oil, fuel, and coolant.



Key operating values are also recorded, allowing conclusions and inferences to be drawn about the individual components. “We receive reports containing these and many other parameters just after midnight,” Michael Aichner, a manager at the PrimeServ Online Service Center in Augsburg, says. “They are first transmitted in encrypted form to our data center in Copenhagen, where they are put through a limit analyzer that flags unusual information, which we then look at in more detail in Augsburg.” The PrimeServ Online Service Center technicians then decide what needs to be done. Although this often entails giving recommendations to help optimize performance, it may sometimes involve identifying mistakes.

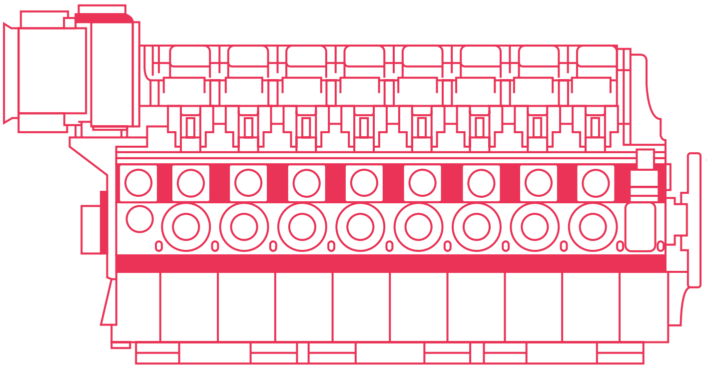
Rapid support

Why did the crew throttle back one of the four engines? Are there signs of wear and tear in a component? “In such cases, we have to decide as soon as possible whether to contact our technical service to determine further course of action or get in touch with the customer directly,” explains Aichner. “If the only issue is one of the cylinders having a higher temperature than the others, we pass this on to the crew so they can review the problem on site. We can make specific suggestions on how the engineers on site should respond so as not to lose any time.”

Digital future

MAN Diesel & Turbo is actively pressing ahead with digitalizing its processes. There are plans to expand the existing monitoring process in 2018. MAN customers can then contact the PrimeServ Online Service technical experts directly to get help with optimizing the performance of their vessel and remedy irregularities – around the clock.

MAN Diesel & Turbo has set its sights on fully automated data evaluation as the next step – a development that will revolutionize the traditional concepts of service and maintenance. Stefan Eefting, who works as Head of MAN PrimeServ Diesel in Augsburg, expects automated monitoring – which goes hand in hand with solid advice – to become the norm in the next five to ten years. “Condition-based maintenance, i.e., maintenance carried out on an individual basis instead of being scheduled at set intervals, means our customers can take a flying leap into the digital future.” With MAN Diesel & Turbo by their side.



Braving the North Sea with 45,683 horsepower

The Stena Hollandica and her sister ship, the Stena Britannica, have four MAN 48/60CR engines each. With a total of 45,683 horsepower, they can reach a speed of up to 22 knots. At 240 meters long, the two ships are some of the world's largest mixed freight and passenger ferries and can accommodate 1,200 passengers and 230 vehicles.

Leaving the mainland behind: the Stena Hollandica heads for Harwich. The sister ferries set off for the UK and the Netherlands twice a day. They have been sailing this route since September 2010.

What does the PrimeServ Online Service offer?

Performance curves

Algorithms are used to evaluate the performance of the engines that are monitored, which is transmitted on a daily basis. After that, the PrimeServ Online Service Center employees receive performance curves they can use to identify whether the engine complies with the required parameters.

Remote support

Should irregularities occur, the expert responsible determines their cause, contacts the customer, and discusses possible solutions. With the customer's consent, experts can access the engine remotely and remedy the defect themselves.

Condition reporting

The customer receives a summary of the assessment of the engine's performance and condition from MAN Diesel & Turbo specialists on a monthly basis.

Trend analysis

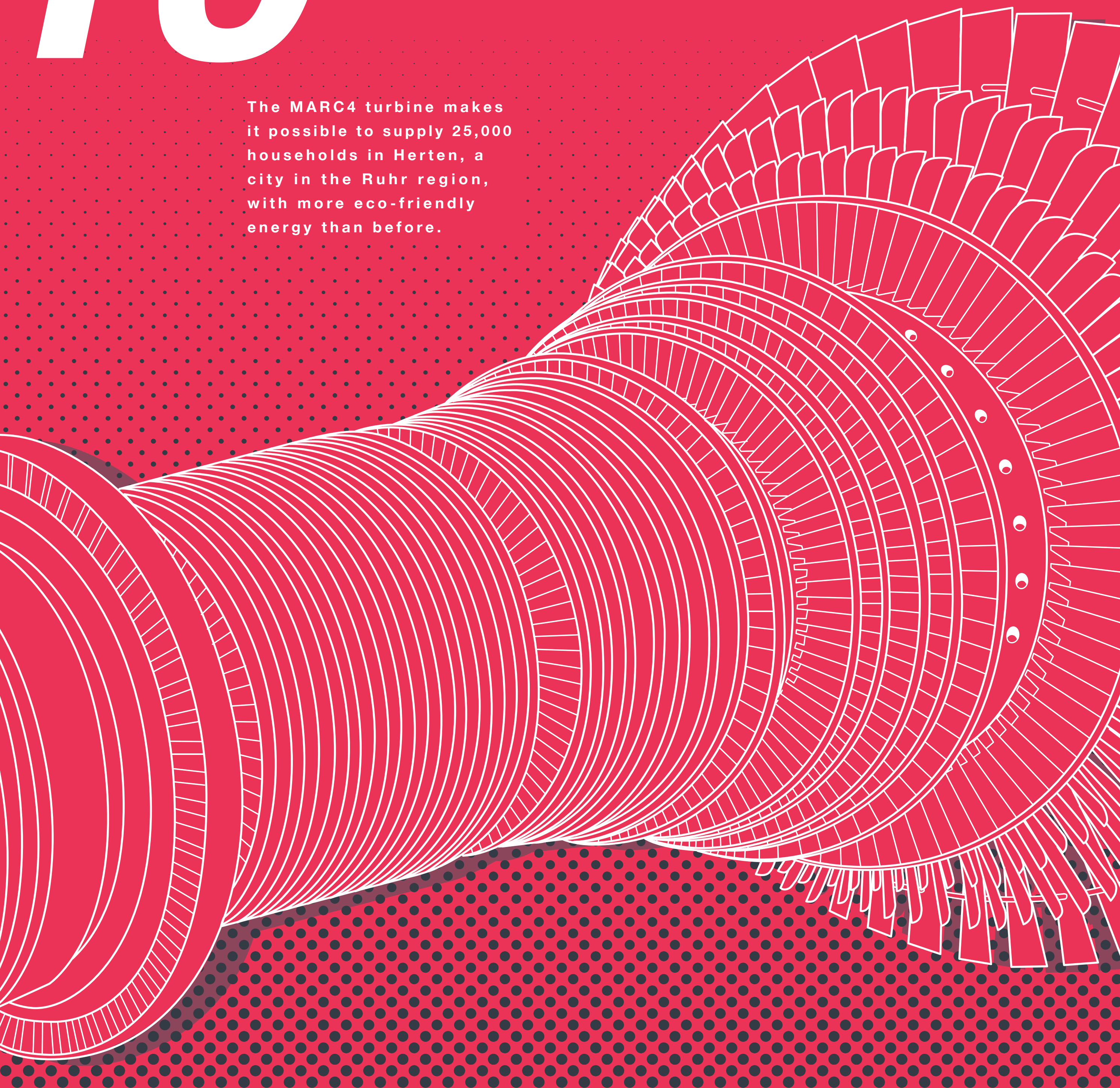
The Online Service also monitors the engine's running performance over a longer period of time and, where necessary, gives the customer recommendations on how to make it more efficient.

Live data indicator

The new live data indicator app lets the customer view the engine's performance data. Work is currently in progress to expand the app to include real-time transmission of all recommendations and warnings. The customer is then also able to contact the Service Center directly via chat or video chat.

WASTE TO

The MARC4 turbine makes it possible to supply 25,000 households in Herten, a city in the Ruhr region, with more eco-friendly energy than before.



Herten

7:30 a.m.

It is surprisingly cold in the Ruhr region this April morning. The thermometer reads four degrees. Many households decide to turn the heating up. The demand for heat is unexpected given the time of year – but where does that heat come from? A waste-to-energy plant on the outskirts of the city.

Flexible plants like this one can respond to a change in needs within a space of a few minutes, and demand for them is on the rise. The operator of the plant, Abfallentsorgungs-gesellschaft Ruhrgebiet, ordered a MARC4 turbine from MAN Diesel & Turbo in February 2017. The steam turbine generator set will enable 25,000 households to be supplied with more district heating than was previously possible.

In other words, the garbage you took to the can in the evening might be making your living room warm and cozy the following morning. Indirectly, at least, since the Herten plant converts 20 tons of waste an hour into heating and electricity. A total of six combustion lines generate high-energy steam, which, in turn, powers the turbines and generators required to produce energy.

There has been a drastic shift in how energy is produced in the Ruhr region. While coal mines used to be a distinctive feature of the landscape, the region's inhabitants are increasingly turning to new ways to generate energy. This creates opportunities, which MAN Diesel & Turbo is grabbing with both hands. "Projects like the one in Herten demonstrate the transition that is going on in the energy landscape," explains Holger Kube, Head of Sales for Power Generation at MAN Diesel & Turbo in Oberhausen. "Our steam turbines help regional suppliers and industrial companies, among others, to be highly efficient when generating heating and electricity." Away from large-scale power plants, they make low-emission generation of heating and electricity possible – both for the companies' own needs and to supply power to the grids. As well as waste, the fuels that can be used for this decentralized form of energy production are diverse: biomass or waste heat from industrial processes are just two examples.

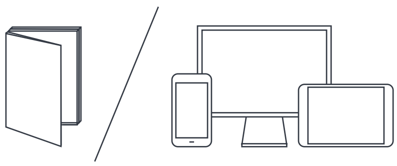
WARMTH

CONTENTS

THE ANNUAL REPORT ONLINE

This 2017 Annual Report can also be downloaded as a PDF file from our website online at

annualreport2017.man



The MAN Group is one of Europe's leading players in the engine, commercial vehicle, and mechanical engineering industries. As a supplier of trucks, buses, vans, diesel engines, turbomachinery, and special gear units, we hold leading positions in all our markets.

MAN AT A GLANCE

2017

16.1 € billion	**ORDER INTAKE INCREASED SHARPLY** [2016: €14.4 billion]
14.3 € billion	**SALES REVENUE NOTICEABLY ABOVE THE PREVIOUS YEAR** [2016: €13.6 billion]
566 € million	**SIGNIFICANT IMPROVEMENT IN OPERATING PROFIT** [2016: €204 million]
3.9 percent	**SIGNIFICANT IMPROVEMENT IN OPERATING RETURN ON SALES** [2016: 1.5%]
–0.5 € billion	**NEGATIVE NET CASH FLOW** [2016: €0 billion]

Group key figures (IFRSs)

€ million	2017	2016	Change in %
Order intake	**16,062**	**14,357**	**12**
Germany	3,662	3,677	0
Other countries	12,400	10,680	16
Sales revenue	**14,342**	**13,564**	**6**
Germany	3,331	3,273	2
Other countries	11,011	10,290	7
Order backlog[1]	**6,276**	**5,641**	**11**
Headcount[1]	**54,297**	**53,824**	**1**
Income statement			**Change** € million
Operating profit	566	204	362
Operating return on sales (%)	3.9	1.5	2.4
Earnings before tax from continuing operations (EBT)	533	49	484
Profit/loss after tax	321	–7	328
Balance sheet			
Total assets[1]	20,282	19,438	845
Total equity[1]	6,125	5,850	275
Equity ratio (%)[1]	30.2	30.1	0.1
Net financial debt[1]	–2,291	–1,875	–417
Cash and cash equivalents[1]	782	796	–14
Cash flow			
Net cash provided by operating activities	268	833	–565
Net cash used in investing activities attributable to operating activities	–809	–831	22
Net cash flow	–541	2	–543
Shares			**Change** in €
Earnings per share from continuing operations in €	2.00	–0.12	2.12
Annual cash compensation payment/guaranteed dividend per share in €[2]	3.07	3.07	–

[1] As of December 31, 2017, vs. December 31, 2016

[2] MAN SE will not distribute any further dividends from fiscal 2014 onward as a result of the DPLTA. Instead, Volkswagen Truck & Bus GmbH has agreed to make annual cash compensation payments of €3.07 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.

MAN GROUP COMPANIES

COMMERCIAL VEHICLES

MAN Truck & Bus
is the largest MAN Group company and is a leading supplier of commercial vehicles and transportation solutions. The new TGE makes MAN a full-range provider of commercial vehicles ranging from 3 through 250 t.

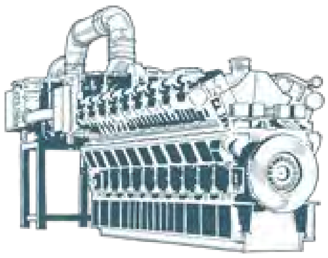
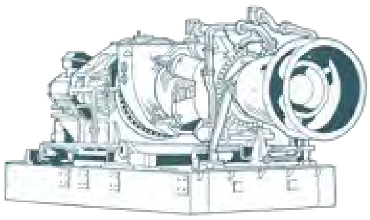
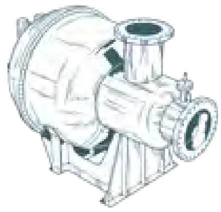
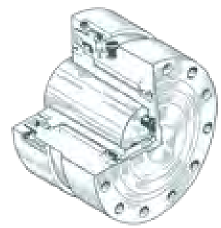
- Vans from 3.0 through 5.5 t
- Trucks with a gross vehicle weight of 7.5 to 44 t
- Heavy special-purpose vehicles with a gross train weight of up to 250 t
- MAN-branded city and intercity buses, coaches, and bus chassis as well as NEOPLAN-branded luxury coaches
- Industrial, marine, and on- and off-road engines
- End-to-end passenger transportation and goods transportation services

€ million	2017	2016
Order intake	11,296	10,342
Sales revenue	10,037	9,243
Operating profit	532	416
Headcount (on December 31)	36,093	35,371
Operating return on sales (%)	5.3	4.5

MAN Latin America
is one of the largest truck manufacturers in Brazil and can look back on a history spanning more than 35 years. The three best-selling truck models in Brazil are made by MAN Latin America. The company is a supplier of commercial vehicles and bus chassis for growth markets, with one of the most advanced production facilities worldwide for trucks and bus chassis that are marketed under both the Volkswagen Caminhões e Ônibus and MAN brands.

- Trucks with a gross vehicle weight of 3.5 to 31 t
- Tractor-trucks with a gross train weight of up to 74 t
- Bus chassis from 5 through 26 t for all uses
- Tailor-made special-purpose vehicles

€ million	2017	2016
Order intake	1,190	861
Sales revenue	1,141	861
Operating loss	–105	–190
Headcount (on December 31)	1,408	1,406
Operating return on sales (%)	–9.2	–22.1

POWER ENGINEERING

MAN Diesel & Turbo
is the world's leading provider of large-bore diesel and gas engines and is also one of the leading suppliers of turbomachinery on the global market.

- Two- and four-stroke engines with high fuel flexibility for use in ships and power plants
- On-board gensets, exhaust-gas turbochargers, and propulsion systems
- Diesel and gas power plants and power plant components
- Comprehensive range of compressors, gas turbines, steam turbines, and chemical reactors
- Complete turbomachinery trains for the oil and gas industry, the processing industry, and power generation
- Global end-to-end after-sales services for the company's entire product range under the MAN PrimeServ brand

€ million	2017	2016
Order intake	3,280	2,808
Sales revenue	2,832	3,113
Operating profit/loss	132	–29
Headcount (on December 31)	14,318	14,603
Operating return on sales (%)	4.7	–0.9

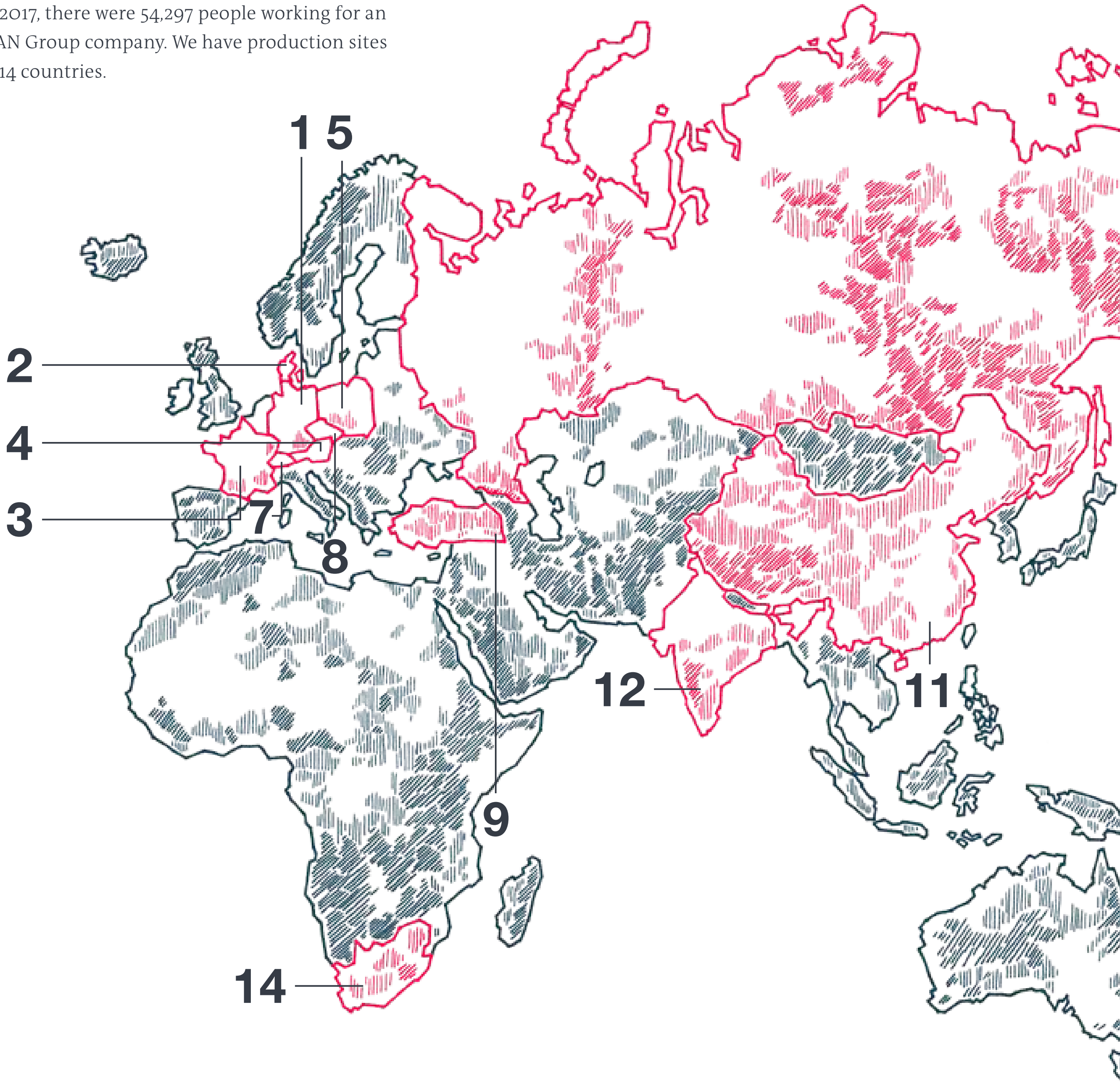
Renk (76%)
is a globally recognized manufacturer of high-quality special gear units, propulsion components, and testing systems.

- Vehicle transmissions for medium- and heavy-tracked vehicles
- Special gear units for specialist marine and stationary applications
- Standard gear units, primarily for merchant shipping, industrial applications, and wind power
- Slide bearing housings for mechanical and electrical engineering as well as special-purpose applications
- Turnkey testing systems for the automotive, rail, and aviation industries as well as testing systems for wind power plants

€ million	2017	2016
Order intake	434	486
Sales revenue	469	496
Operating profit	60	67
Headcount (on December 31)	2,235	2,205
Operating return on sales (%)	12.8	13.5

PRODUCTION SITES WORLDWIDE

In 2017, there were 54,297 people working for an MAN Group company. We have production sites in 14 countries.



1 GERMANY

- **Employees [1]:** 31,441
- **Production sites:** Munich, Nuremberg, Salzgitter (MAN Truck & Bus); Augsburg (MAN Diesel & Turbo, Renk); Oberhausen, Berlin, Hamburg, Deggendorf (MAN Diesel & Turbo); Hanover, Rheine (Renk)

2 DENMARK

- **Employees [1]:** 2,170
- **Production sites**: Frederikshavn, Copenhagen (MAN Diesel & Turbo)

3 FRANCE

- **Employees [1]:** 1,408
- **Production site:** Saint-Nazaire (MAN Diesel & Turbo)

7 SWITZERLAND

- **Employees [1]:** 1,015
- **Production sites:** Zurich (MAN Diesel & Turbo); Winterthur (Renk)

8 CZECH REPUBLIC

- **Employees [1]:** 378
- **Production site:** Velká Bíteš (MAN Diesel & Turbo)

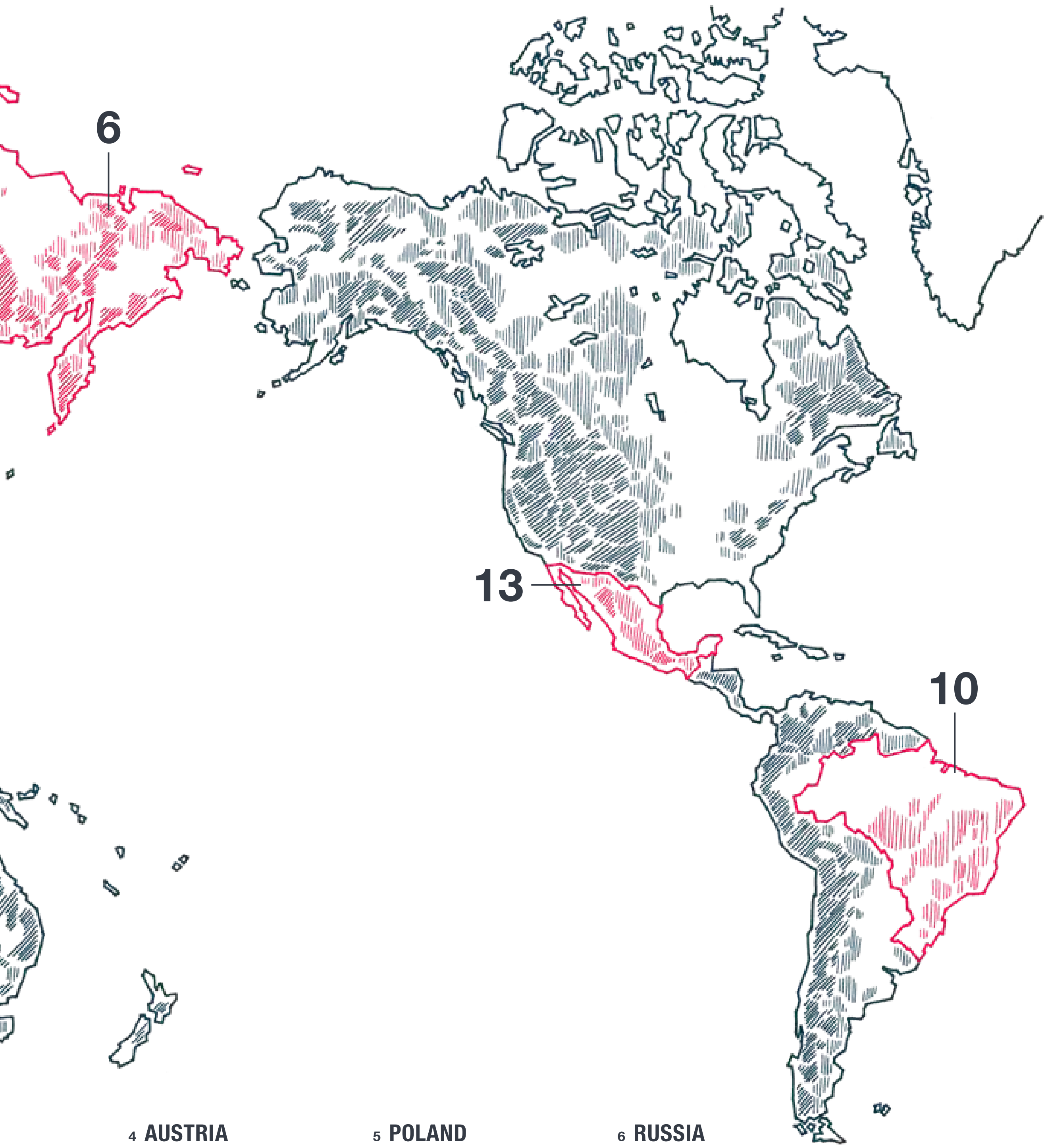
9 TURKEY

- **Employees [1]:** 2,594
- **Production site:** Ankara (MAN Truck & Bus)

10 BRAZIL

- **Employees [1]:** 1,513
- **Production site:** Resende (MAN Latin America)

[1] As of December 31, 2017; excluding subcontracted employees; all MAN companies nationwide



4 AUSTRIA

- **Employees[1]:** 2,871
- **Production site:**
  Steyr (MAN Truck & Bus)

5 POLAND

- **Employees[1]:** 3,442
- **Production sites:**
  Cracow, Starachowice
  (MAN Truck & Bus)

6 RUSSIA

- **Employees[1]:** 274
- **Production site:**
  St. Petersburg
  (MAN Truck & Bus)

11 CHINA

- **Employees[1]:** 627
- **Production site:**
  Changzhou
  (MAN Diesel & Turbo)

12 INDIA

- **Employees[1]:** 1,362
- **Production sites:**
  Pithampur
  (MAN Truck & Bus);
  Aurangabad, Bangalore
  (MAN Diesel & Turbo)

13 MEXICO

- **Employees[1]:** 168
- **Production site:**
  Querétaro
  (MAN Latin America)

14 SOUTH AFRICA

- **Employees[1]:** 925
- **Production sites:**
  Olifantsfontein, Pinetown
  (MAN Truck & Bus)

FINANCIAL DIARY

(expected dates)*

2018 **MAY 16**	**Annual General Meeting for fiscal year 2017**
2018 **AUGUST 3**	**Half-Yearly Financial Report 2018**

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

Publication date for the 2017 Annual Report
March 20, 2018

1

TO OUR SHAREHOLDERS

PAGES
11 — 30

MAN TGE

The new MAN TGE has a variety of uses – as a panel van, a combi van, a crew cab with platform body, or a chassis cab with platform body – while its innovative security systems and a range of customer-focused services make it stand out from the crowd.

MAN TGX

The current MAN TG series gets a makeover with new cabs that offer greater comfort in the driver's workplace and rest area, as well as innovative security and assistance systems.

MAN LION'S COACH

A new edition of the coach and long-distance bus comes with improved body shell rigidity, optimized drive train, and a new design language. Numerous assistance systems ensure maximum safety.

1

PAGE 11

TO OUR SHAREHOLDERS

30

Dear Shareholders,

The global economy picked up speed in 2017, driven by growth in economic activity worldwide. In light of this, demand improved in many markets that are relevant for the MAN Group. At the same time, however, competition remained intense and price pressure was again high. As expected, 2017 was thus both a challenging and an eventful year for us.

Demand for trucks, vans, and buses in the Commercial Vehicles business area recorded largely positive growth in key regions. Following the strong recovery in the previous year, the European commercial vehicles market was unchanged at a high level. The Latin American economy bottomed out, and exports from Brazil accelerated. The Brazilian commercial vehicles market experienced a strong upward trend in the second half of the year. Russia also recorded growth, and developments in China and India, too, were positive.

The situation improved slightly in the Power Engineering business area, but remained strained overall. The marine market and the market for turbomachinery posted slight growth at a low level. The market remained under pressure in the large merchant ship segment. Healthy demand for cruise ships and in the special market for government vessels was a positive factor. The general trend toward gas-powered ships continued. The energy generation market recorded a slight increase in demand. The shift toward dual-fuel and natural gas power plants accelerated further. A positive trend was also evident in the after-sales market for turbomachinery and for diesel engines in the marine and power plant sector.

Against this backdrop, the MAN Group's business recorded encouraging growth in 2017. We maintained and consolidated leading market positions in all areas. Our high level of innovation and the quality of our products and services, coupled with our customer-focused approach, proved a distinct advantage. We have worked together as a strong team to initiate many changes and launch new projects, and to systematically implement our programs for the future. For example, PACE2017 was successfully completed at MAN Truck & Bus. At MAN Diesel & Turbo, Base Camp 3000+ was vigorously driven forward. We improved the Company's key financial figures in 2017.

The MAN Group increased its order intake by 12% to €16.1 billion. Both business areas contributed to this growth. 14% more vehicles were ordered in the Commercial Vehicles business area, while the Power Engineering business area recorded 13% growth in order intake. Group sales revenue in the year under review came in at €14.3 billion, representing solid growth of 6%. As expected, the tangible growth in sales revenue in the Commercial Vehicles business area clearly exceeded the decline in the Power Engineering business area.

We made further progress in terms of profitability in 2017. Developments at MAN Truck & Bus were again very positive: sales revenue growth and the PACE2017 program for the future were strong earnings drivers. MAN Latin America improved its profitability on the back of enhanced cost structures and processes as well as an increase in unit sales. At MAN Diesel & Turbo, on the other hand, predominantly difficult market conditions continued to weigh on earnings. Renk's operating return on sales was again in the double-digit range.

We significantly lifted the Group's operating profit to €566 million in 2017 – an increase of €362 million. As a result, the MAN Group's operating return on sales rose sharply from 1.5% to 3.9%. The previous year was negatively impacted by restructuring expenses of €213 million. At the same time, both operating profit and the operating return on sales rose noticeably in 2017, even compared with the prior-year figure before restructuring expenses.

This means that the MAN Group achieved its goals in the reporting period, and actually exceeded them in some cases. We think this performance is encouraging, although profitability is still not satisfactory. This is why MAN will be focusing on the following topics in the future:

We must and will strive consistently to further improve our earnings power. Consequently, we will also concentrate on measures to optimize processes and cost structures going forward. At MAN Diesel & Turbo, we are driving Base Camp 3000+ forward in line with our roadmap. With our focus on continuous improvement and operational excellence, we are creating the conditions in the MAN Group for safeguarding future growth and achieving our profitability goals.

At the same time, we are facing up to the major challenges coming our way as a result of future issues such as digitization, automation, and electrification. Tomorrow's mobility will be radically different to the mobility of today. Modern powertrain technologies are key triggers for this change – and innovative commercial vehicles are paving the way for autonomous driving. There is therefore a need for new ideas and sustainable concepts in both of our business areas. We intend to, and will, leverage the opportunities resulting from this change, together with our customers. One key to a successful future in a dynamic environment is "tempo." This means being fast and flexible. And: setting the trends in each market environment ourselves and encouraging new developments through technical innovations and intelligent approaches that meet future customer requirements.

MAN is striving to make the world of transportation and energy more efficient, more environmentally friendly, and safer. This is why we are driving innovation forward and investing in our future. At MAN Truck & Bus, we are investing around €2.4 billion to strengthen our sites over five years up to 2020. This will enable us to ensure the efficiency of our plants and the quality of our products in the long term. In 2017, for example, the new cab paint shop in Munich was put into operation, the new central building of the development center was completed, and a large number of sales and service branches were opened to improve proximity to our customers. We are also investing substantially at MAN Diesel & Turbo. The construction of a new test center for turbochargers began in 2017 in Augsburg, for example, and we also built a new factory for large components in Deggendorf.

One example of our strong innovative capability is the RIO digital brand initiated by MAN: an open, cloud-based platform for the entire transportation industry that now operates as an independent brand of Volkswagen Truck & Bus. RIO went live with an initial services offering at the end of 2017 and will help drive us further forward in 2018. MAN Truck & Bus, MAN Latin America, and Scania are working together very closely within the Volkswagen Truck & Bus Group. In line with the lead engineering concept, cross-brand teams are working on drivetrain development projects. In the process, common platforms for engines, transmissions, axles, and exhaust aftertreatment systems are being created that can be adapted by the individual brands. The development cooperation initiative also includes the technological fields of electrification and autonomous driving. Efficiency, zero emissions, and sustainability play a significant role here.

Enhanced energy efficiency and reduced emissions for all products are also core drivers at MAN Diesel & Turbo. Digitization is being driven forward in all areas of development and is permeating the entire product portfolio. The focus is on providing customers with added benefits, simplifying use, and improving reliability.

For the MAN Group, we assume that the global economy will grow at a slightly weaker pace in 2018, with the highest growth rates expected in the emerging economies of Asia. Protectionist tendencies and geopolitical tension and conflicts could impact growth. Due to the external environment and because of the stiff competition and price pressure in certain segments of our business, our markets will therefore remain challenging in 2018. Additionally, new product developments and the challenges posed by electric mobility, digitization, and automated driving will require significant investments.

The Executive Board anticipates slight growth in the MAN Group's sales revenue in 2018, to which all divisions are likely to contribute. We are expecting a moderate increase in unit sales in the Commercial Vehicles business area and anticipate that order intake in the Power Engineering business area will remain level year-on-year. The MAN Group's operating profit will be roughly on a level with the previous year, causing the operating return on sales to decline slightly.

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.

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.

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 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.

Dr. Uwe Lauber
Chief Executive Officer of MAN Diesel & Turbo SE

Born in 1967. Studied mechanical engineering and completed a doctorate. Joined Sulzer Turbo – now MAN Diesel & Turbo – in 2000. Responsible for compressor design, research and development, and testing until 2010. Named Head of the Oil & Gas business unit in December 2010. Executive Board member since October 2014 with responsibility for global Sales and After-Sales activities. Chief Executive Officer of MAN Diesel & Turbo SE since January 2015, member of the Executive Board of MAN SE since March 2017.

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.

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 2017. 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 four regular meetings in fiscal 2017. 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.

The chairman of the Audit Committee is Mr. Matthias Gründler. The Presiding Committee is always chaired by the Chairman of the Supervisory Board.

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

A list of the members of the committees as of the end of 2017 is provided on page 152 of this Annual Report.

The **Presiding Committee** held a total of four face-to-face meetings in 2017.

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** did not meet in 2017.

The **Audit Committee** held a total of two meetings in the year under review.

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").

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

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, 2017. 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 2017, the areas of emphasis of the audit, and the statement regarding the auditors' independence in accordance with section 7.2.1 of the German Corporate Governance Code.

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 Audit Committee also deliberated and resolved on the implementation of the requirements of the *Abschlussprüfungsreformgesetz* (AReG — German Audit Reform Act) as regards services performed by the auditor of MAN SE and its global network for MAN SE and the companies controlled by it.

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 2017:

Supervisory Board meeting on February 16, 2017

Our meeting on February 16, 2017, focused on the annual financial statements for 2016. After detailed examination, we approved the consolidated financial statements prepared by the Executive Board and the annual financial statements of MAN SE for 2016, plus the Combined Management Report of MAN SE and the MAN Group.

We also dealt on February 16, 2017, with the agenda of the 2017 Annual General Meeting.

In addition, we resolved to engage PwC to audit MAN SE's 2017 financial statements and its risk early recognition system – provided the 2017 Annual General Meeting elects PwC as the auditors for the year under review.

The Supervisory Board also resolved to appoint Dr. Uwe Lauber as a member of the Executive Board of MAN SE.

Supervisory Board meeting on May 24, 2017

In the meeting following the Annual General Meeting, we dealt, in particular, with the political and economic situation in Brazil and with strategic matters relating to MAN Latin America.

The Supervisory Board also approved the acquisition of a minority interest in the Canadian systems supplier Aspin Kemp & Associates Holding Corp. by MAN Diesel & Turbo SE.

Supervisory Board meeting on July 28, 2017

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 Diesel & Turbo SE and Renk AG.

We also resolved to revise the Rules of Procedure of the Supervisory Board in accordance with the requirements of section 5.3.2. of the German Corporate Governance Code.

Supervisory Board meeting on November 10, 2017

In addition to the business performance and the corporate planning for the years 2018 to 2022, we addressed the "FUTURE LION" corporate strategy of MAN Truck & Bus AG in depth.

The Supervisory Board also discussed corporate governance matters.

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

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 was a topic of the Supervisory Board meeting on November 10, 2017, and of a written resolution in December 2017.

In December 2017, 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 as amended on February 7, 2017, with the exception of section 4.2.3, paragraph 2, sentence 3 (variable compensation with forward-looking characteristics), 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 2017.

Further information on corporate governance at MAN is available in our Corporate Governance Report, see pages 22ff. 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:

Dr. Dr. Christian Porsche stepped down from the Supervisory Board with immediate effect on November 10, 2017.

Upon request of the Executive Board, the Munich Commercial Register Court appointed Dipl.-Design. Stephanie Porsche-Schröder as a member of the Supervisory Board by way of a resolution on January 23, 2018.

From the Executive Board, Josef Schelchshorn announced that he would step down from the Executive Board of MAN SE and MAN Truck & Bus AG with effect from midnight on June 30, 2017.

By way of a resolution dated June 29, 2017, the Supervisory Board appointed Dr. Carsten Intra as a member of the Executive Board and *Arbeitsdirektor* (Executive Board member responsible for employee relations) of MAN SE effective July 1, 2017. As was the case with his predecessor, Mr. Schelchshorn, Dr. Intra also serves as Chief Human Resources Officer and *Arbeitsdirektor* at MAN Truck & Bus AG.

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 24, 2017, elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, as the auditors for fiscal 2017. 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 27, 2018, and February 28, 2018, respectively.

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 28, 2018. 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 auditor's 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 28, 2018, 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 28, 2018

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 Volkswagen Truck & Bus GmbH), 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. Since that date, Volkswagen Truck & Bus GmbH has been authorized to issue instructions to the Executive Board of MAN SE.

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

(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 2017, 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 Federal Gazette (*Bundesanzeiger*) on April 24, 2017, are complied with except for section 4.2.3, paragraph 2, sentence 3 (variable compensation with forward-looking characteristics), 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 4.2.3, paragraph 2, sentence 3 is not followed only to the extent that the assessment basis for variable compensation components does not have essentially forward-looking characteristics. The current compensation system is based on the recommendations of the Code in the version dated May 5, 2015. Since the Supervisory Board believes a long-term assessment basis that has essentially forward-looking characteristics to make sense, preparations are currently underway to adapt the compensation system in accordance with the recommendations of the most recent version of the Code, however this process is still ongoing and has not yet been implemented.

2. The recommendation in section 5.3.2, paragraph 3, sentence 2 of the Code is not followed only to the extent that the Chairman of the Audit Committee of

[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, as amended on February 7, 2017

the Supervisory Board, Mr. Matthias Gründler, cannot be considered "independent" within the meaning of section 5.4.2, sentence 2 of the Code in view of his function as a Member of the Management of Volkswagen Truck & Bus GmbH.

For the Executive Board and Supervisory Board of MAN SE, it is most important that the Chairman of the Audit Committee possess the required expert knowledge of the industry. It is not clear why an appointment 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 Chairman of the Audit Committee.

3. 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.

4. 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 precaution.

5. 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 Executive and Supervisory Boards of MAN SE furthermore declare that the recommendations of the Government Commission on the German Corporate Governance Code in the version dated May 5, 2015, published by the German Ministry of Justice in the official section of the Federal Gazette (*Bundesanzeiger*) on June 12, 2015, were complied with in the period from December 2016 through April 24, 2017, except for section 5.3.2, sentence 3 (independence of the Chairman of the Audit Committee; in the version of the Code dated February 7, 2017: section 5.3.2, paragraph 3, sentence 2), section 5.4.1, paragraphs 5 through 7 (disclosure in the case of election recommendations; in the version of the Code dated February 7, 2017: section 5.4.1, paragraphs 6 through 8), and section 5.4.6, paragraph 2, sentence 2 (performance-related Supervisory Board compensation). The grounds for these exceptions can be found in the above explanations.

From April 24, 2017, until this Declaration of Conformity was issued, 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 Federal Gazette (*Bundesanzeiger*) on April 24, 2017, were complied with except for section 4.2.3, paragraph 2, sentence 3 (variable compensation with forward-looking characteristics), section 5.3.2, paragraph 3, sentence 2 (independence of the Chairman of the Audit Committee), section 5.4.1, paragraph 2, sentence 1 (preparation of a profile of skills and expertise), section 5.4.1, paragraph 5 (curricula vitae of all Supervisory Board members), 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). For section 4.2.3, paragraph 2, sentence 3, section 5.3.2, paragraph 3, sentence 2, section 5.4.1, paragraphs 6 through 8, section 5.4.6, paragraph 2, sentence 2, and section 7.1.1, sentence 2, the grounds for these exceptions can be found in the above explanations.

The new recommendations included with effect from April 24, 2017, in section 5.4.1, paragraphs 2 and 5 are complied with in respect of the preparation of a profile of skills and expertise for the entire Board since the Supervisory Board's adoption of the corresponding resolution in December 2017, as well as in respect of the publication of the curricula vitae of all Supervisory Board members on the Company's website from November 2017 onwards."

The Executive and Supervisory Boards of Renk Aktiengesellschaft, a listed subsidiary based in Augsburg, have also issued a declaration of conformity. This is posted on the company's website at **www.renk.eu**.

Annual General Meeting

The Annual General Meeting is the forum where MAN shareholders can exercise their voting rights, obtain information, and engage in a dialog 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 Federal Gazette (*Bundesanzeiger*) 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, either in writing or by electronic means, to exercise their voting rights as their proxy. In addition, all shareholders and the interested public have the option to follow the Annual General Meeting live on the Internet.

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 currently comprises four members. Please refer to the "Governing Bodies" section in the Annual Report for further information on 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 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. 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.

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

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

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

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

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

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

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

Remuneration system for the Executive Board and Supervisory Board

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

Compliance/risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transparency and financial reporting

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

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

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

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

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

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

(2) Other corporate governance practices

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

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

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

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

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

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

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

The Executive Board does not have any committees.

Working practices of the Supervisory Board committees

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

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

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

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

(4) Target for percentage of women

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

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

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

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

(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 be at least 30% women and at least 30% men.

The Supervisory Board of the Company has satisfied these requirements since the most recent elections to the Supervisory Board at the 2016 Annual General Meeting.

The corresponding disclosures by the listed subsidiary Renk Aktiengesellschaft are available on our website at **www.corporate.man.eu** under the "Investor Relations" heading.

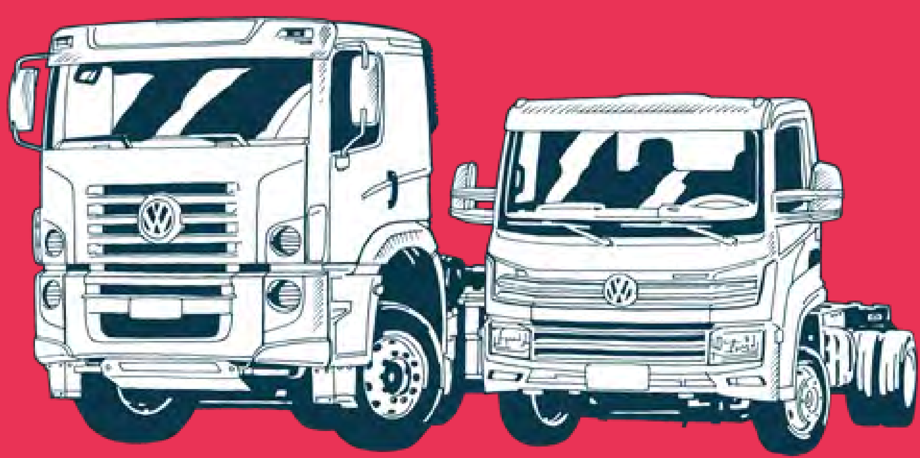
(6) Disclosures on the diversity concept for the Supervisory Board and the Executive Board

Already in fiscal 2017, the Supervisory Board of MAN SE worked to develop a diversity concept for the Supervisory Board and the Executive Board of the Company pursuant to section 289f (2) no. 6 of the HGB, but has not yet resolved on this matter as there is further need for discussion and coordination.

However, the Supervisory Board generally intends to pursue a diversity concept for both the Supervisory Board and the Executive Board.

2
COMBINED MANAGEMENT REPORT

PAGES
31 — 80



CONSTELLATION 33.440 TRACTOR

With 440 horsepower thanks to the MAN D2676 engine, this tractor-truck is the most powerful in the Constellation series. MAN Latin America presented the prototype, which combines MAN chassis and engine with the well-known Constellation cab, in fall 2017.

VW DELIVERY 9.170

State-of-the-art materials have been installed in this vehicle, which is part of the new Delivery series from MAN Latin America. The result? A truck that is 10% lighter than its predecessor while using less fuel, producing fewer emissions, and offering greater load-carrying capacity.

2

PAGE 31

COMBINED MANAGEMENT REPORT

80

The Combined Management Report describes the course of business and the position of the MAN Group and MAN SE in fiscal 2017.
The Corporate Governance Statement, which is published in the "Corporate Governance" section, forms part of this Combined Management Report.

THE MAN GROUP'S BUSINESS ACTIVITIES

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

The MAN Group

The MAN Group is one of Europe's leading commercial vehicle and mechanical engineering groups and focuses on activities in the areas of transportation and energy – market segments that offer long-term, global opportunities. MAN's business activities are grouped into two business areas: Commercial Vehicles, comprising MAN Truck & Bus and MAN Latin America, and Power Engineering, featuring MAN Diesel & Turbo and Renk. In both business areas, the MAN Group pursues the aims of generating profitable international growth, sustainably increasing the enterprise value, and offering innovative solutions for its customers. In addition to consistent customer orientation, the key success factors are technology leadership and the continuous expansion of the after-sales business.

Commercial Vehicles business area

MAN Truck & Bus is one of Europe's leading manufacturers of commercial vehicles and has production facilities in three European countries, Russia, South Africa, India, and Turkey. Its product portfolio comprises vans, trucks, buses, and diesel and gas engines, as well as passenger and freight transportation services. In 2017, MAN Truck & Bus expanded its product range to include large vans, making it a full-range supplier of commercial vehicles with a weight of between 3 and 44 t for all areas of application and special-purpose vehicles with a gross train weight of up to 250 t. The new MAN van, which has been given the model name MAN TGE, was developed in cooperation with Volkswagen Commercial Vehicles and will be produced together with the identical Volkswagen Crafter van at the new Volkswagen plant in Września, Poland. To complement the entire expanded commercial vehicles portfolio, MAN Truck & Bus is pursuing a targeted, future-oriented strategy by offering its customers an extensive range of services from a single source.

MAN Latin America is one of the largest manufacturers of trucks and buses in Brazil and can look back on a history spanning 35 years. The three best-selling truck models in Brazil are made by MAN Latin America. The company produces trucks and buses in Resende, Brazil, and Querétaro, Mexico. MAN Latin America staff at the Resende plant, which has a modular production system, work together in close partnership with suppliers. MAN Latin America has a nationwide sales and service network in Brazil and neighboring countries. Sales are primarily made through Volkswagen Caminhões e Ônibus. The most important markets for MAN Latin America are Latin America and Africa. The extensive dealer network in Latin America and Africa comprises 344 dealers, including 143 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 Truck & Bus, MAN Latin America, and Scania work closely together as part of the Volkswagen Truck & Bus Group. The aim is to turn Volkswagen Truck & Bus and its brands into a Global Champion. The brands will, however, retain their identities and full operational responsibilities. Under the umbrella of Volkswagen Truck & Bus, cross-brand teams develop common platforms for engines, transmissions, axles, and exhaust aftertreatment systems that are adapted by the individual brands. The development cooperation initiative also includes the technological fields of electrification and autonomous driving.

Power Engineering business area

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

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

Research and development

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

Commercial Vehicles

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

To satisfy customer needs, MAN strives to make the world of transportation safer, more efficient, and more environmentally friendly – in this respect, it is focusing on the three groundbreaking fields of automated driving, connectivity, and climate-friendly drives. In addition to continually enhancing and developing its range of products, MAN's research and development activities therefore focus on reducing fuel consumption, cutting emissions, alternative drives, the use of alternative fuels, and improving active and passive safety. MAN is also actively addressing the challenges posed by digital transformation and, to this end, initiated the RIO digital brand – an open, cloud-based platform for the entire transportation industry that operates as an independent brand of Volkswagen Truck & Bus.

MAN Truck & Bus reached a milestone in the development of alternative drives: in January 2017, the company and the Austrian Council for Sustainable Logistics (CNL) agreed to jointly develop and test fully electric trucks. MAN and CNL signed a corresponding agreement at the MAN plant in Steyr, Austria. The plan is for customers to test nine fully electric MAN delivery trucks in their daily operations in 2018. The results of these test drives will be incorporated into subsequent series development. MAN plans to manufacture a small batch initially; the serial production of electric trucks for urban distribution transportation will begin in 2021 and the serial production of fully electric city buses will start at the end of 2019.

Another major field of development is the digitization and automation of commercial vehicles. The partnership between DB Schenker and MAN marks the first time a logistics company and a vehicle manufacturer are working together to develop networked truck convoys for use in logistics. The two companies signed a cooperation agreement in May 2017 for this technology, which is also known as platooning. The first step will see DB Schenker test truck convoys in regular operations and under real road conditions over a period of several months. The trucks will be operated not by test drivers, but rather by professional drivers from DB Schenker. During the test phase, which will begin in the spring of 2018, DB Schenker and MAN will deploy platoons on the digital test field, a section of the A9 highway between DB Schenker's Munich and Nuremberg sites. 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. The platoons will operate between the DB Schenker Logistics Centers in Munich and Nuremberg up to three times a day. 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.

MAN introduced a series of new and improved commercial vehicles in 2017:

At the beginning of March 2017, MAN Truck & Bus officially launched the new MAN TGE. With a broad range of derivatives, the MAN TGE appeals to any customers who require a van or a combi van with a permissible gross vehicle weight of between 3 and 5.5 t for their daily work. Last-mile distribution transportation is becoming ever more fragmented and individual due to growth in online sales and the associated requirements. In addition to the closed panel van and a combi van with windows, the MAN TGE also comes with crew and chassis cabs. Customers will now be able to choose from two wheelbases, three roof heights, and three vehicle lengths. Depending on the combination selected, the closed panel van can have cargo capacity of up to 18.4 cubic meters. The new MAN TGE marks MAN Truck & Bus's transformation into a full-range provider.

In September 2017, MAN Truck & Bus presented the new transportation solutions offered by its 2018 models – from vans to heavy-duty trucks – to the international trade press at the Full Range Days trade fair in Barcelona. In addition to the MAN TGE, the spotlight was also on the new generation of MAN D08 SCR engines. This new engine for the medium-duty TGL and TGM series models boasts an exhaust gas aftertreatment process based solely on SCR technology as well as a simpler design. This expands its spectrum of application and makes it easier to maintain and more reliable. The new exhaust gas cleaning function and additional measures such as demand-based engine cooling enhance the efficiency of the new D08 engine generation. New functions for the TipMatic gearbox were also presented that further increase the driving comfort and efficiency of the TGL and TGM models. Across all model ranges, new control elements upgrade the driver's workplace inside the cab and make it more user-friendly. To minimize driver fatigue during congestion and slow-moving traffic, MAN has equipped the latest generation of ACC (autonomous cruise control) with a stop-and-go function. It automatically regulates the distance to the vehicle in front, even at low speeds, slows the vehicle down, stopping it altogether if necessary, and starts it up again independently after brief stops.

Since August 2017, the RIO Box has been featured in serial production of all new MAN Euro 6 trucks in Europe. In doing so, MAN is laying the cornerstone for an infrastructure whose services could bring together the entire transportation and logistics industry in the future. Since December 2017, customers have been able to centrally access a wide variety of data from their fleet and take advantage of numerous services from the transportation and logistics industry via the cloud-based RIO platform. Here, the RIO Box serves as an interface between the vehicle and the platform. The RIO Box functions independently of the system and manufacturer. It is designed in a way that means it can also be used in mixed fleets, and thus gives small and medium-sized logistics companies an opportunity to be part of the modern transportation and logistics ecosystem. Since the beginning of 2018, it has also been possible to retrofit vehicles with an FMS interface with the RIO Box.

MAN presented the new MAN Lion's Coach in October 2017 at the Busworld trade fair in Kortrijk, Belgium. Not only does the coach feature a modern and timeless design, it also boasts improved cost-effectiveness and safety. Thanks to high-strength steel components and a patented pipe-in-pipe technology for the roll bar, the new coach can absorb more crash energy. What is more, safety and efficiency are enhanced as a result of LED main headlamps and LED tail lights, as well as numerous assistance systems such the lane guard system (LGS), the emergency brake assist (EBA), light and rain sensors, the MAN EfficientCruise topography-based cruise control system with the EfficientRoll "sailing function," and the MAN AttentionGuard. The MAN Lion's Coach also comes with a fire extinguisher system in the engine compartment.

In October 2017, MAN Latin America presented its new Delivery range at Fenatran, the largest Latin American industry tradeshow for commercial vehicles. The company's portfolio now includes light-duty commercial vehicles weighing 3.5 through 13 t that meet the transportation requirements of urban centers. The new Delivery series has a newly designed, more lightweight cab. In addition, these vehicles offer greater fuel economy and even more cargo capacity. In the area of electric mobility, MAN Latin America presented the e-Delivery – the first fully electric truck prototype developed in Brazil. The e-Delivery is a modern commercial vehicle for urban logistics that is intended to make distribution transportation in urban areas more sustainable. Its cargo capacity ranges from 9 through 11 t. Production is scheduled to begin in 2020.

MAN and Scania have been collaborating on drive train development under the umbrella of Volkswagen Truck & Bus. During this process, common platforms for engines, transmissions, axles, and exhaust aftertreatment systems are being created that can be adapted by the individual brands. The lead engineering concept sets out clear principles for joint development activities within the Group and takes the specific requirements of all participants into account. The brands remain independent, and each cross-brand project group is led by one of the two companies. The brands have expanded their development cooperation initiative to include the technological fields of electrification and autonomous driving.

Power Engineering

Increased energy efficiency and reduced emissions are the main drivers of the development strategy for all products at MAN Diesel & Turbo. Intensified global price competition is also forcing product design adjustments with respect to unit production costs and delivery times. Consequently, we systematically continued the product initiative in 2017 to expand and optimize the product portfolio and safeguard our technology leadership in the long term. Digitization is being driven forward in all areas of development and is gradually permeating the entire product portfolio of MAN Diesel & Turbo. The focus here is on providing customers with added benefits, simplifying use, and improving reliability.

A number of new four-stroke engine variations were again approved for sale in 2017. The product portfolio was also expanded through the launch of the 45/60CR (Common Rail) type. An additional focus area was the development and optimization of end-to-end solutions for various customer groups. MAN Diesel & Turbo took an important step en route to becoming a system provider in acquiring a 40% share in Aspin Kemp & Associates Holding Corp., Montague, Canada (Aspin Kemp & Associates), a Canadian company specializing in onboard power supply, energy management, and electric propulsion systems for maritime applications. To account for the growing importance of gas as a fuel in maritime applications, in the future MAN Diesel & Turbo will provide customers with a one-stop solution comprising a dual-fuel engine, propellers, liquid gas storage systems, and a battery and energy management system on board the ship.

MAN Diesel & Turbo is focusing increasingly on gas for stationary applications of four-stroke engines. A new modular concept for gas-engine power plants with combined heat and power generation (CHP) addresses the growing demand for highly efficient but flexible energy generation technologies. The CHP solution is based on the proven 35/44G four-stroke gas engine, which is available with both single-stage and two-stage turbochargers.

Research and development of two-stroke engines continues to focus on fuel flexibility (e.g., use of LNG, methanol, ethane), which in the future will be expanded to include LPG fuel. The new Mark 10 series improves the performance and weight of the existing engines further. The world's first methanol-powered overseas tanker with a two-stroke liquid gas injection engine was commissioned in the year under review.

Turbomachinery products are increasingly being designed as modules so that the product range can be tailored to customer requirements, economies of scale achieved with smart modularization, and process stability enhanced through the use of carryover parts. In addition to the turbomachinery, the systems and plant engineering modules and the measurement and control technology modules are supplied as components for various applications such as refineries or oil and gas production. This modularization helps plant operators to implement projects more quickly and cost-effectively.

MAN Diesel & Turbo has expanded its latest line of gas turbines for applications in power generation and mechanical drives. The newly developed gas turbine in the 6 megawatt (MW) category is already in operation in a number of CHP plants, combining high availability and efficiency with low emissions.

MAN Diesel & Turbo's methanation reactors make it part of various power-to-gas applications and enable an important contribution to be made to decarbonization.

As in the previous years, Renk's R&D activities concentrated on continually optimizing and complementing the product portfolio. Based on the existing product range, the individual business units therefore focused on further improvements to drive concepts and components and the expansion of complex solutions designed to meet specific customer requirements. Most of Renk's products are developed for and in partnership with customers. The company is often involved in the concept phase and works together with customers to find the best solutions for their specific needs.

Key R&D figures

Research and development costs

€ million	2017	2016
Total R&D costs	965	881
of which capitalized development costs	– 323	– 276
Capitalization ratio in %	33.5	31.3
Amortization of and impairment losses on capitalized development costs	98	101
R&D costs recognized in the income statement	**740**	**706**
Ratio to sales revenue in %	5.2	5.2
R&D employees (annual average)	4,532	4,554

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

Operating return on sales

The MAN Group aims for an operating return on sales of 8.5% over an operating cycle. The goal is an operating return on sales of 8.5% in the Commercial Vehicles business area and 9.0% in the Power Engineering business area. A range of +/–2 percentage points has been defined for all specified figures.

%	2017	2016
Commercial Vehicles	3.9	2.1
Power Engineering	5.9	1.1
MAN Group	**3.9**	**1.5**

Return on investment (ROI)

€ million	2017	2016
MAN Group annual average invested capital	6,479	5,943
Operating profit	566	204
Operating profit after tax	396	143
ROI in %	6.1	2.4

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.

COURSE OF BUSINESS AND ECONOMIC POSITION OF THE MAN GROUP IN 2017

European commercial vehicles market on a level with the previous year, modest improvement in Brazil, slight recovery in the markets for Power Engineering, significant improvement in the MAN Group's order intake and operating profit

Results of operations

Order situation

Order intake by business area

€ million	2017	%	2016	%
Commercial Vehicles	12,394	77	11,105	77
Power Engineering	3,694	23	3,281	23
Others	– 27	0	– 29	0
MAN Group	**16,062**	**100**	**14,357**	**100**

The MAN Group significantly increased order intake in both business areas in 2017.

In the Commercial Vehicles business area, the European commercial vehicles market remained more or less consistent at a high level in 2017. Having previously bottomed out, the Brazilian economy was able to bounce back. Growth in the Brazilian commercial vehicles market was slightly above the prior-year level overall, with a clear upward trend becoming apparent in the second half of the year. In Russia, the commercial vehicles market saw significant year-on-year growth. The number of vehicles ordered from MAN climbed by a total of 14% to 119,659 (previous year: 105,046 vehicles). Order intake rose by 38% at MAN Latin America and by 9% at MAN Truck & Bus.

The market situation for the Power Engineering business area improved slightly. Despite persistently difficult market conditions, the marine and turbomachinery markets registered moderate growth against the very low prior-year level. A slight increase in demand was once again evident in the energy generation market, particularly in developing countries and emerging economies. Overall, however, the market situation remained strained and was characterized by high competitive and price pressure. MAN Diesel & Turbo was able to lift its order intake by 17%, particularly in the Power Plants strategic business unit. By contrast, order intake at Renk was down 11% on the prior-year level.

Order backlog by business area

€ million	2017	2016
Commercial Vehicles	2,992	2,595
Power Engineering	3,289	3,050
Others	– 6	– 5
MAN Group	**6,276**	**5,641**

The order backlog in the Power Engineering business area increased to €3.3 billion, and thus has a range of about one year when measured against the sales revenue in 2017.

Sales revenue

Sales revenue by business area

€ million	2017	%	2016	%
Commercial Vehicles	11,085	77	10,002	74
Power Engineering	3,283	23	3,593	26
Others	– 26	0	– 32	0
MAN Group	**14,342**	**100**	**13,564**	**100**

Unit sales in the Commercial Vehicles business area rose to 114,134 (previous year: 102,235) as a result of the positive market development. At MAN Latin America, this indicator climbed by 27%, with exports also growing considerably. MAN Latin America's sales revenue rose by 33%. MAN Truck & Bus saw an 8% increase in the number of vehicles sold and raised sales revenue by 9%. Sales revenue in the Commercial Vehicles business area was up 11% on the prior-year figure overall.

Sales revenue in the Power Engineering business area decreased by 9%. MAN Diesel & Turbo recorded lower sales revenue in the Engines & Marine Systems strategic business unit due to lower engine delivery volumes, as well as in the Turbomachinery strategic business unit as a result of lower order intake in previous years. By contrast, sales revenue was on a level with the previous year in the Power Plants strategic business unit. Renk's sales revenue declined by 5%.

Sales revenue by region

€ million	2017	%	2016	%
Europe	9,614	67	8,993	66
Germany	3,331	23	3,273	24
Western Europe (excluding Germany)	4,444	31	4,175	31
Central and Eastern Europe	1,840	13	1,545	11
Americas	1,680	12	1,472	11
North America	508	4	499	4
South America	1,172	8	974	7
Asia-Pacific	1,738	12	1,707	13
Other markets	1,311	9	1,391	10
Africa	588	4	554	4
Middle East	722	5	837	6
MAN Group	**14,342**	**100**	**13,564**	**100**

The regional distribution of sales revenue reflects the business development outlined above. Sales revenue in Europe grew tangibly in the Commercial Vehicles business area. The increase in sales revenue in Eastern Europe resulted primarily from higher unit sales in Russia. The Power Engineering business area, however, registered a slight decline in Europe. Growth in sales revenue in South America was chiefly attributable to higher unit sales of commercial vehicles in Brazil and Argentina. Some €1.0 billion (previous year: €0.7 billion) of the MAN Group sales revenue recorded in South America was attributable to MAN Latin America, which in turn generated 62% (previous year: 61%) of its sales revenue in the Brazilian market. The focus of sales revenue in Asia was on China and South Korea, at around €0.4 billion each. Sales revenue in South Korea fell year-on-year, particularly in the Power Engineering business area. In the Middle East, sales revenue declined primarily as a result of the lower project volume in the Turbomachinery strategic business unit at MAN Diesel & Turbo.

Operating profit/loss

Operating profit/loss by business area

€ million	2017	2016
Commercial Vehicles	434	209
Power Engineering	193	39
Others	– 61	– 45
MAN Group [1]	**566**	**204**

[1] 2017 figure contains income from reversal of restructuring provisions in the amount of €91 million (previous year: restructuring expenses of €213 million).

In the Commercial Vehicles business area, operating profit doubled compared with the previous year, with both MAN Truck & Bus and MAN Latin America contributing to this improvement. In addition to the growth in sales, the PACE2017 program for the future had a significant positive impact at MAN Truck & Bus. The increase at MAN Latin America was attributable partly to higher volume and the program to improve efficiency, which was introduced in the previous year. Furthermore, the prior-year figure included restructuring expenses in the amount of €58 million.

Operating profit in the Power Engineering business area improved considerably in the year under review. This was mainly due to the fact that MAN Diesel & Turbo's earnings in the previous year were negatively impacted by restructuring expenses of €155 million. Renk's operating profit declined compared with the previous year.

"Others" comprises MAN SE and its Shared Services companies, the income from equity investments held directly by MAN SE, and the consolidation adjustments between the MAN Group's business areas. The operating loss attributable to Others increased in the year under review due to higher project-related expenses and the reversal of provisions in the previous year.

Operating return on sales

The MAN Group's operating return on sales increased sharply to 3.9% (previous year: 1.5%) in the past fiscal year. The MAN Group's profitability thus improved noticeably in 2017 but was still significantly below the targeted range of the long-term target of 8.5% +/– two percentage points due to the difficult environment.

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	2017	%	2016	%
Sales revenue	14,342	100	13,564	100
Cost of sales	– 11,671	– 81	– 11,033	– 81
Gross profit	**2,671**	**19**	**2,531**	**19**
Other operating income	655	5	592	4
Distribution expenses	– 1,626	– 11	– 1,565	– 12
General and administrative expenses	– 770	– 5	– 757	– 6
Other operating expenses	– 364	– 3	– 597	– 4
Operating profit	**566**	**4**	**204**	**2**
Share of profits and losses of equity-method investments	73	1	19	0
Interest income [1]	53	0	38	0
Interest cost [1]	– 180	– 1	– 191	– 1
Other financial result [1]	21	0	– 21	0
Financial result	**– 32**	**0**	**– 155**	**– 1**
Profit before tax	**533**	**4**	**49**	**0**
Income taxes	– 229	– 2	– 55	0
Current	– 90	– 1	– 208	– 2
Deferred	– 139	– 1	152	1
Income/loss from discontinued operations, net of tax	17	0	–	–
Profit/loss after tax	**321**	**2**	**– 7**	**0**

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

The MAN Group's sales revenue increased noticeably against the previous year. Gross profit also increased noticeably. The cost of sales rose proportionately, causing the gross margin of the MAN Group to remain on a level with the previous year.

Although cost of sales and administrative expenses increased slightly, costs were reduced as a percentage of sales revenue.

Other operating expenses decreased significantly. In the previous year, this indicator contained considerable restructuring expenses at MAN Diesel & Turbo and MAN Latin America. Other operating income was up year-on-year, mainly as a result of higher income from the reversal of provisions.

The financial result improved considerably compared with the previous year. Net income from equity-method investments, in particular, increased sharply, with profit recorded by both Sinotruk and Rheinmetall MAN Military Vehicles GmbH, Munich, rising. Interest expense declined slightly. Other financial result improved as a result of lower expenses for the fair value measurement of derivatives.

The tax rate was 43.0% (previous year: 113.6%). As in the previous year, the tax rate was, above all, negatively impacted 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. Income from discontinued operations in 2017 amounted to €17 million and resulted from subsequent purchase price adjustments for prior-year period taxes of a former subsidiary, including interest.

Financial position

MAN Group funding

Bilateral lines with Volkswagen Aktiengesellschaft, Wolfsburg (Volkswagen AG), 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 €1.95 billion has been utilized. The unutilized portion of the credit facility is available as a liquidity reserve. In addition, MAN Group companies outside Germany secured local credit lines with banks in the amount of approximately €760 million that were drawn on mainly by MAN Latin America as of December 31, 2017.

MAN SE's last outstanding publicly offered bond with a principal amount of €750 million was redeemed at maturity on March 13, 2017.

Cash flow

MAN consolidated statement of cash flows (key figures)

€ million	2017	2016
Cash and cash equivalents at beginning of period	**796**	**779**
Profit before tax	533	49
Income taxes paid/refunded	– 140	63
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property [1]	358	349
Amortization of, and impairment losses on, capitalized development costs [1]	98	101
Impairment losses on equity investments	0	2
Depreciation of assets leased out [1]	610	562
Change in pension provisions	27	– 70
Gain/loss on disposal of noncurrent assets and equity investments	– 14	– 3
Share of profits or losses of equity-method investments	– 67	– 16
Other noncash income and expense	– 17	5
Gross cash flow	**1,389**	**1,041**
Change in working capital	**– 1,120**	**– 208**
Change in inventories	– 249	– 121
Change in receivables	– 342	43
Change in liabilities and prepayments received (excluding financial liabilities)	501	615
Change in provisions	– 165	134
Change in assets leased out	– 865	– 879
Net cash provided by operating activities	**268**	**833**
Payments to acquire property, plant, and equipment, and intangible assets (excluding capitalized development costs)	– 496	– 579
Additions to capitalized development costs	– 323	– 276
Payments to acquire other investees	– 26	– 6
Proceeds from the disposal of other investees	6	–
Proceeds from asset disposals (other than assets leased out)	30	30
Net cash used in investing activities attributable to operating activities	**– 809**	**– 831**
Net cash flow	**– 541**	**2**

[1] Net of impairment reversals

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

€ million	2017	2016
Net cash flow	**– 541**	**2**
Change in loans and time deposits	295	103
Net cash used in investing activities	**– 514**	**– 728**
Dividends allocated to noncontrolling interest shareholders	– 4	– 4
Loss absorption/profit transfer	99	– 513
Capital transactions with noncontrolling interest shareholders	–	– 3
Repayment of bonds	– 750	– 500
Change in other financial liabilities	917	894
Net cash provided by/used in financing activities	**262**	**– 126**
Effect of exchange rate changes on cash and cash equivalents	– 30	39
Change in cash and cash equivalents	**– 14**	**17**
Cash and cash equivalents at end of period	**782**	**796**
Composition of net liquidity/net financial debt at end of period [1]		
Cash and cash equivalents	782	796
Securities, loans, and time deposits	28	325
Gross liquidity	**810**	**1,120**
Total borrowings	– 3,101	– 2,995
Net financial debt	**– 2,291**	**– 1,875**

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

The MAN Group's gross cash flow increased year-on-year due mainly to the improvement in profit before tax. This was partially offset by tax payments in the year under review, compared with the prior year, where tax refunds exceeded tax payments.

The increase in working capital led to a more pronounced reduction in net cash provided by operating activities than in the previous year. The main contributor to this trend in fiscal 2017 was the increase in receivables and inventories as a result of higher sales volume. The change in provisions in the previous year was driven by the recognition of restructuring provisions. By contrast, provisions declined in the year under review. 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 other liabilities within net cash provided by operating activities.

Net cash used in investing activities attributable to operating activities was on a level with the previous year.

In all business areas, net cash used in operating and investing activities attributable to operating activities was worse than in the previous year.

Net cash flow by business area

€ million	2017	2016
Commercial Vehicles	– 318	– 124
Power Engineering	– 183	– 19
Others	– 40	145
MAN Group	**– 541**	**2**

In the Commercial Vehicles business area, net cash flow declined in fiscal year 2017 to €–318 million (previous year: €–124 million). This was mainly due to the increase in working capital, which significantly outweighed the rise in earnings. In the Power Engineering business area, net cash flow declined primarily as a result of the reduction in provisions and payables. In the previous year, the net cash flow attributable to Others included the inflow of €135 million from the dividend distributed by Scania AB, Södertälje/Sweden (Scania).

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

Net cash provided by financing activities rose to €262 million (previous year: net cash used in financing activities of €126 million). In the year under review, this included the loss of €99 million absorbed by Volkswagen Truck & Bus GmbH, Braunschweig (Volkswagen Truck & Bus), for 2016 (previous year: profit transfer of €513 million). Cash outflows of €750 million for the repayment of the outstanding bonds (previous year: €500 million) were offset by new loans of €700 million (previous year: €850 million) from Volkswagen AG.

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

The MAN Group's net financial debt rose by €417 million and amounted to €2.3 billion as of December 31, 2017.

Capital expenditures

Capital expenditures

€ million	2017	2016
Property, plant, and equipment, and investment property	480	559
Intangible assets	339	295
Investments	26	6
Total	**845**	**861**

Capital expenditures of the MAN Group remained at a high level in fiscal 2017. 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	2017	2016
Property, plant, and equipment, and intangible assets	354	382
Capitalized development costs	229	185
Total	**583**	**567**

Capital expenditures for property, plant, and equipment at MAN Truck & Bus in 2017 focused on continuing to restructure and modernize the production facilities to ensure a high level of plant efficiency and product quality in the long term. For example, a new paint shop was brought on stream in Munich. Other sites in and outside Germany were adapted to meet the requirements of new products and components. In addition, the new central building of the development center in Munich was completed.

To secure its current market position and future growth, MAN Truck & Bus renovated existing facilities and continued its ongoing efforts to strengthen and expand its sales and service network. New sales and service branches and TopUsed centers were once again opened in 2017 and construction of further facilities was initiated.

Furthermore, MAN Truck & Bus upped its investments in capitalized development costs in connection with extensive product development.

Capital expenditures at MAN Latin America

€ million	2017	2016
Property, plant, and equipment, and intangible assets	29	53
Capitalized development costs	44	37
Total	**74**	**89**

In fiscal 2017, MAN Latin America 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.

Capital expenditures at MAN Diesel & Turbo

€ million	2017	2016
Property, plant, and equipment, and intangible assets	91	116
Capitalized development costs	49	54
Total	**141**	**169**

MAN Diesel & Turbo primarily invested in the development of new products and the modernization of infrastructure in fiscal 2017. Capital expenditures in diesel engine production focused on completing the modernization of test benches for large engines and on commissioning new assembly platforms for large engines. Capital expenditures in engine and control systems development concentrated on expanding the facilities for injection component development, exhaust gas aftertreatment processes, and engine management systems.

The company invested in measures to cut costs and increase productivity across all turbomachinery production and test sites. In Oberhausen, MAN Diesel & Turbo began expanding capacities for the startup of a new family of gas turbines. The newly constructed factory for large components was brought on stream in Deggendorf.

In addition, MAN Diesel & Turbo acquired a 40% stake in Aspin Kemp & Associates in 2017. Specializing in onboard power supply, energy management, and electric propulsion systems for maritime applications, the Canadian-based company is the global market leader in equipping hybrid-driven ship propulsion systems with integrated battery storage and in the area of highly available onboard power generation.

Capital expenditures at Renk

€ million	2017	2016
Property, plant, and equipment, and intangible assets	19	25

After major capital expenditure projects in recent years, particularly at the Augsburg site, payments to acquire property, plant, and equipment declined significantly at Renk in 2017. The main areas of focus were the restructuring of production operations in the Special Gear Units business and the realignment of assembly operations in the Vehicle Transmissions business, both at the Augsburg site. At the Hanover and Rheine sites, production facilities were supplemented, and testing and measurement capacities expanded. Renk also continued the comprehensive renewal of its site in France.

Net assets

€ million	2017	2016
Property, plant, and equipment, and intangible assets	4,960	4,774
Investments	3,734	3,360
Assets leased out	3,504	3,239
Income taxes	656	638
Inventories	3,397	3,246
Trade receivables	2,171	2,038
Other noncurrent and current assets	1,078	1,348
Cash and cash equivalents	782	796
Total assets	**20,282**	**19,438**
Equity	6,125	5,850
Pensions and other post-employment benefits	590	624
Financial liabilities	3,101	2,995
Other financial liabilities	2,851	2,537
Provisions	1,770	1,978
Prepayments received	655	705
Income taxes (including provisions for taxes)	612	380
Trade payables	1,925	1,914
Other noncurrent and current liabilities	2,653	2,455
Total equity and liabilities	**20,282**	**19,438**

Property, plant, and equipment, and intangible assets rose as a result of the high capital expenditures. Negative currency effects, especially the performance of the Brazilian real against the euro, had an offsetting effect. In addition to the necessary replacement and maintenance investments, MAN continued to invest primarily in developing new products and modernizing production in fiscal year 2017.

The increase in investments reflects the higher carrying amount of the investment in Scania, which rose to €3,172 million (previous year: €2,837 million). 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 is largely due to an increase in raw materials, supplies, and consumables at MAN Truck & Bus and in unfinished goods at MAN Truck & Bus and MAN Diesel & Turbo. The higher trade receivables figure is mainly attributable to the Commercial Vehicles business area. To manage liquidity, customer receivables are regularly sold to credit institutes and to Volkswagen Financial Services AG, Braunschweig, and its assigned national companies.

Other noncurrent and current assets declined primarily as a result of the repayment of loans that MAN SE had extended to MAN Financial Services GmbH, Munich, and its assigned national companies.

Pension obligations dropped mainly due to the positive development of the value of plan assets.

Under financial liabilities, the repayment of bonds in the amount of €750 million was more than offset by new loans from Volkswagen AG as well as new loans raised by MAN Latin America.

The decrease in provisions was largely attributable to the use and partial reversal of provisions for restructuring measures at MAN Truck & Bus and MAN Diesel & Turbo.

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.

Equity rose to €6,125 million as of December 31, 2017 (previous year: €5,850 million). The consolidated financial statements have been prepared following appropriation of net profit. The net changes recognized in other comprehensive income of €151 million mainly relate to the higher carrying amount of the investment in Scania. Currency translation had an offsetting effect. Despite the positive change in equity, the more pronounced increase in noncurrent assets (intangible assets, property, plant, and equipment, and investments) led to a drop in the ratio of equity to noncurrent assets by two percentage points from 72% to 70%. The MAN Group's equity ratio increased slightly as of December 31, 2017, and amounted to 30.2% (previous year: 30.1%).

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.

In addition, there are unrecognized obligations for contingent liabilities and legal disputes. 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 yet satisfactory

Forecast versus actual figures MAN Group

€ million	Actual 2016	Original forecast for 2017	Most recent forecast for 2017	Actual 2017	Change 2017 to 2016
Sales revenue	13,564	Slight year-on-year growth	Slight year-on-year growth	14,342	6%
Operating profit [1]	204	Significantly higher than the previous year, also noticeably above the figures before restructuring expenses	Significantly higher than the previous year, also noticeably above the figures before restructuring expenses	566	€+362 million
Operating return on sales (%)	1.5	Significantly higher than the previous year, also noticeably above the figures before restructuring expenses	Significantly higher than the previous year, also noticeably above the figures before restructuring expenses	3.9	+2.4 percentage points

[1] 2017 figure contains income from reversal of restructuring provisions in the amount of €91 million (previous year: restructuring expenses of €213 million).

Forecast versus actual figures Commercial Vehicles

€ million	Actual 2016	Original forecast for 2017	Most recent forecast for 2017	Actual 2017	Change 2017 to 2016
Sales (units)	102,235	Noticeable increase	Noticeable increase	114,134	12%
Sales revenue	10,002	Noticeable increase	Noticeable increase	11,085	11%

Forecast versus actual figures Power Engineering

€ million	Actual 2016	Original forecast for 2017	Most recent forecast for 2017	Actual 2017	Change 2017 to 2016
Order intake	3,281	On a level with the previous year	On a level with the previous year	3,694	13%
Sales revenue	3,593	Down significantly on the previous year	Down significantly on the previous year	3,283	–9%

The MAN Group met, and in some cases exceeded, its forecast targets in fiscal 2017. However, the Group's profitability remained well below its long-term targets once again in 2017 due to the challenging market situation in several divisions. The Executive Board of the MAN Group therefore considers business developments to be positive, while profitability is not yet 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 pursue continuous improvements and strive for operational excellence.

The MAN Group's sales revenue grew by 6% on the previous year, a figure even slightly greater than forecast. As expected, operating profit increased significantly year-on-year to €566 million (previous year: €204 million). Operating return on sales improved by 2.4 percentage points to 3.9%.

Unit sales and sales revenue in the Commercial Vehicles business area developed positively. The original forecast was even slightly exceeded, with these two indicators up by 12% and 11%, respectively. The European commercial vehicles market remained relatively steady at a high level in 2017 and thus developed better than expected. The Brazilian market recovered in the second half of the year and, as forecast, expanded slightly overall compared with the previous year. In addition, MAN Latin America benefited from a significant increase in exports.

MAN clearly exceeded its order intake targets in the Power Engineering business area with an increase of 13%. MAN Diesel & Turbo posted a significant increase, particularly in the Power Plants strategic business unit. Overall, however, the market situation remained strained and was characterized by high competitive and price pressure. Renk did not match the prior-year figure. As forecast, sales revenue in the Power Engineering business area declined materially following weak order intake in the previous years.

THE DIVISIONS IN DETAIL

MAN Truck & Bus

- **European truck market remains at a high level**
- **Significant improvement in operating profit**
- **Earnings mainly driven by PACE2017 program for the future**

MAN Truck & Bus

€ million	2017	2016
Order intake	11,296	10,342
Sales revenue	10,037	9,243
Vehicle sales (units)	89,987	83,199
Operating profit	532	416
Operating return on sales (%)	5.3	4.5

Economic environment

The European truck market was relatively steady at a high level in 2017 following significant growth in the previous year. The European market volume in the segment for trucks over 6 t amounted to around 356,000 (previous year: 355,000) units. The market remained at a very low level in a number of regions outside of Europe that are important to MAN, such as Turkey. In Saudi Arabia, the segment for European manufacturers once again declined significantly. By contrast, the truck markets in China, Russia, and India performed extremely well. New registrations for MAN Truck & Bus trucks over 6 t in the European market were on a level with the previous year at approximately 55,500 units, giving the company a market share of 15.6% (previous year: 15.7%).

The European bus market saw slight positive development in 2017, coming in at 29,800 (previous year: 29,400) units. The Spanish and Italian volume markets continued to expand in the year under review, while demand eased in the United Kingdom and the Czech Republic. Outside Europe, the Russian market, in particular, recovered from the lows of the preceding years, which were driven by recession. The South African market, in which MAN has been the market leader since 2014, saw a decline in 2017. MAN Truck & Bus recorded a 12% increase in new registrations in the European market for buses over 8 t, posting a figure of around 4,000 units. With a market share of 13.4% in 2017, MAN Truck & Bus noticeably improved upon the prior-year figure (12.2%).

Business developments

The Trucks business generated an order intake of €9.4 billion (previous year: €8.8 billion). Measured in terms of units, orders rose by 9% compared to the previous year to a total of 87,028 (previous year: 79,757) trucks. This was mainly driven by the significant year-on-year rise in order intake in Russia and Poland. By contrast, order intake in Germany and other countries developed negatively year-on-year. The figures for the Trucks business also include the new TGE van series for the first time. MAN Truck & Bus received orders for 3,261 TGE vans.

Sales revenue in the Trucks business rose by 9% to €8.5 billion. Unit sales were up significantly on the prior-year figure at 83,661 (previous year: 77,073) trucks, mainly as a result of higher unit sales in Russia. Countries such as the United Kingdom and the Netherlands, however, saw a downward trend in unit sales. The unit sales figure of the Trucks business included 2,212 TGE vans.

Order intake in the Bus business was up 18% on the prior-year figure, at €1.8 billion (previous year: €1.6 billion). Higher year-on-year order intake in Israel, Saudi Arabia, Portugal, and other countries had a part to play here. Orders increased by 12% overall to 6,975 (previous year: 6,211) buses. Sales revenue came in at €1.6 billion (previous year: €1.5 billion). The company sold 6,326 (previous year: 6,126) buses, with positive unit sales growth in Israel, among other countries.

Operating profit

MAN Truck & Bus's operating profit improved significantly on the prior year, rising to €532 million (previous year: €416 million). The operating return on sales climbed to 5.3% (previous year: 4.5%). Considerable positive impact was provided by the growth in sales revenue and the successful completion of the PACE2017 program for the future, which covered all areas in the company and which enabled MAN Truck & Bus to increase its profitability and its competitiveness sharply. The reversal of provisions also had a positive impact. Earnings were diminished by the year-on-year increase in expenses for new products and expenses relating to the digital transformation, among other factors.

MAN Latin America

- **Improved market environment**
- **Market leadership regained in Brazil for trucks weighing 5 t and over**
- **Positive effects from higher unit sales and the program to improve efficiency**

MAN Latin America

€ million	2017	2016
Order intake	1,190	861
Sales revenue	1,141	861
Vehicle sales (units)	25,881	20,369
Operating profit	– 105	– 190
Operating return on sales (%)	– 9.2	– 22.1

Economic environment

Overall, the Brazilian commercial vehicles market grew slightly in 2017. A strong upward trend emerged in the second half of the year once the difficult political and economic climate began to dissipate. After a 3.6% decline in 2016, Brazil's gross domestic product grew modestly by 1.0% in the year under review. The austerity measures introduced by the government in previous years led to positive results in the year under review. Since October 2016, low inflation has allowed the Brazilian Central Bank to cut key interest rates sharply and to loosen its monetary policy, which resulted in a modest increase in economic activity, labor market recovery, and improved business confidence as 2017 approached its end.

New registrations for trucks in Brazil weighing 5 t and over were up slightly with 50,520 units in 2017 (previous year: 49,281). MAN Latin America recorded 14,207 (previous year: 13,690) new registrations, regaining the leadership position within this segment. The company's market share climbed to 28.1% (previous year: 27.8%) in the year under review.

The Brazilian bus market also recorded moderate growth with 11,755 units in 2017 (previous year: 11,161 units). With 2,176 (previous year: 1,798) new registrations, MAN Latin America improved its market share to 18.5% (previous year: 16.1%), while maintaining its number two position.

Brazil's commercial vehicle exports improved year-on-year due to a recovery in relevant Latin American markets such as Argentina and Mexico. MAN Latin America secured its position as one of Brazil's leading exporters, with 17.5% (previous year: 16.1%) of the country's commercial vehicle exports.

Business developments

MAN Latin America sold a total of 25,881 commercial vehicles in the reporting period (previous year: 20,369 vehicles). Sales revenue increased to €1.1 billion (previous year: €0.9 billion) due to a recovery in both local and foreign markets. The company sold 14,669 (previous year: 12,196) vehicles in the very competitive Brazilian truck market, representing year-on-year growth of 20%. MAN Latin America sold 2,233 bus chassis in Brazil (previous year: 1,527 bus chassis), a significant increase of 46%. The number of exported vehicles climbed by 35% to 8,979.

Operating loss

MAN Latin America's operating loss improved to €105 million (previous year: operating loss of €190 million). This ongoing loss can be attributed especially to weak overall demand as well as the persistent and intense competition. During 2016, MAN Latin America introduced an extensive program in its production and administrative areas and in sales to improve efficiency and strengthen the company in a highly competitive market environment. Restructuring expenses of €58 million were incurred in connection with this program in 2016. Earnings of MAN Latin America rose, even compared to the previous year's figure before restructuring expenses, with factors such as higher sales revenue and the program to improve efficiency also contributing to this increase.

MAN Diesel & Turbo

- **Order intake increased sharply**
- **Operating return on sales tangibly improved**
- **Slight recovery in the markets, but market environment remains difficult**

MAN Diesel & Turbo

€ million	2017	2016
Order intake	3,280	2,808
Sales revenue	2,832	3,113
Operating profit/loss	132	– 29
Operating return on sales (%)	4.7	– 0.9

Economic environment

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

Once again, only very few merchant ships were ordered in the first half of 2017. New construction of bulk carriers and container ships, in particular, remained below expectations due to lower freight rates overall. In the second half of 2017, the market volume in the merchant shipping segment came in at a higher level overall, and a slightly positive trend began to emerge for new ship orders. Despite the continuing recovery in oil prices, the existing overcapacity in the offshore sector continued to inhibit investment, resulting in an almost complete standstill in shipbuilding. In contrast, a stable and positive trend was again seen in the demand for cruise ships, ferries, fishing vessels, and dredgers. The special market for government vessels also saw sustained positive growth. Irrespective of persisting low prices for liquid fuels, the moderately positive trend in favor of gas-powered ships stabilized due to the expected tightening of emissions guidelines. Overall, the marine market registered slight growth at a low level year-on-year in 2017. China, South Korea, and Japan continued to be the dominant shipbuilding countries, with a global market share of more than 75% in terms of the number of vessels. Low market volumes across all market segments resulted in significant competitive pressure, triggering a clear drop in prices.

Demand for energy solutions in developing countries and emerging economies grew again slightly in 2017. The Middle East, Southeast Asia, Africa, and South America remain among the relevant markets for the Power Plants strategic business unit. Delays in awarding contracts that affected larger projects, in particular, were seen due to continuing sluggish growth in important developing countries and emerging economies and the persistently difficult financing conditions for customers. Overall, demand for decentralized diesel- and gas-powered power plants was up slightly on the previous year. The shift away from heavy oil power plants toward dual-fuel and natural gas power plants intensified further, but almost all projects continue to be impacted by intense competitive and price pressures that affect the earnings quality of orders.

The market for new turbomachinery is largely driven by investment projects for oil and gas, the processing industry, and power generation. Despite a certain recovery, oil prices remained relatively low in 2017 in a long-term comparison. Capital expenditures by the leading oil and gas companies therefore remained mired at a low level. Planned projects were once again delayed or canceled. Demand for products in the processing industry and power generation also remained weak overall in 2017. Overcapacity in a number of sectors such as the steel industry prevented a recovery in the corresponding markets. Competition intensified due to capacity underutilization for many manufacturers. Overall, the market volume for turbomachinery was moderately higher during the year under review than in the preceding year, and competitive and price pressures remain very strong.

The after-sales market for diesel engines in the marine and power plant sector developed positively overall and benefited from steadily growing interest in long-term maintenance contracts and retrofit solutions. In the turbomachinery segment, the after-sales market showed a moderate upward trend.

Business developments

MAN Diesel & Turbo reported an order intake of 10.5 gigawatts (GW) for large two-stroke engines, compared with 11.8 GW in the previous year. Order intake for four-stroke medium-speed diesels used in the company's own propulsion engines and for powering onboard equipment fell short of the prior-year figure. MAN Diesel & Turbo received orders for 529 original and licensed engines in total with a combined output of 1.6 GW, compared with 555 original and licensed engines with a combined output of 1.7 GW in the previous year. In the year under review, order intake in the Engines & Marine Systems strategic business unit was 3% lower than in the previous year, coming in at a total of €1,461 million in 2017.

MAN Diesel & Turbo's power plants business received orders for 158 four-stroke engines in 2017 (previous year: 119 engines). The supplied products range from an engine-generator unit to comprehensive power plant solutions including ancillary systems and fuel preparation. Orders originated mainly from developing countries and emerging economies, particularly in Asia and Africa. Europe also played an important role in fiscal 2017. For example, Turkish energy company Karpowership ordered 38 engines with a combined output of 754 MW for its floating power plants. These are a flexible solution to urgent energy bottlenecks from the water. The company was also successful in the Indonesian market, receiving orders for 25 engines with a combined output of 314 MW. In Bangladesh, the company won contracts for 15 engines with a combined output of 283 MW. At €756 million, order intake in the Power Plants strategic business unit was up significantly on the prior-year figure of €460 million.

Order intake in the Turbomachinery strategic business unit rose by 26% in fiscal 2017 to €1,063 million despite the persistently difficult market environment.

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

The Engines & Marine Systems strategic business unit generated sales revenue of €1,389 million in the year under review, down 8% on the 2016 figure. The delivery of two-stroke engines exclusively built by licensees decreased year-on-year in 2017. These engines are largely used in merchant ships. MAN Diesel & Turbo maintained its leading market position. The medium-speed engines business delivered fewer engines in fiscal 2017 than in the previous year. A significant share of these deliveries concerned the cruise liner and government vessel segments.

At €502 million (previous year: €498 million), sales revenue in the Power Plants strategic business unit was on a level with the previous year in 2017 and was primarily generated by major projects, mostly in the Middle East, Europe, and Asia-Pacific regions.

In the Turbomachinery strategic business unit, sales revenue declined by 15% in the year under review to €941 million as a result of lower order intake in previous years.

The after-sales business recorded healthy growth in order intake, with after-sales business for large-bore engines in the marine and power plant sector, in particular, benefiting from growing interest in long-term maintenance contracts. By contrast, sales revenue came in slightly below the prior-year level.

Operating profit

MAN Diesel & Turbo recorded an operating profit of €132 million in 2017. This was significantly above the prior-year figure (operating loss of €29 million), which, however, was negatively impacted by restructuring expenses. MAN Diesel & Turbo had launched the comprehensive Base Camp 3000+ program in the previous year to safeguard future viability. The program includes measures to optimize internal processes and improve the cost structure. Positive effects also resulted from the reversal of provisions, while earnings were negatively impacted by lower sales revenue and capacity utilization.

Renk

- **Order intake down year-on-year**
- **Sales revenue declines**
- **Operating return on sales again in double digits**

Renk

€ million	2017	2016
Order intake	434	486
Sales revenue	469	496
Operating profit	60	67
Operating return on sales (%)	12.8	13.5

Economic environment

According to the *Verband Deutscher Maschinen- und Anlagenbau* (VDMA — German Engineering Federation), sales in the global machine construction sector increased by about 6% in 2017 after a slight decline in the previous year. This robust growth significantly exceeded the original expectations. There was an upward trend in many countries, including, in particular, China, the most important base of production in the global machine construction industry. Sales in the German machine construction sector also increased by about 3% year-on-year in 2017.

Business developments

With its broad range of specialized solutions for gear unit and slide bearing applications, Renk is present in numerous markets that often have only a minimal correlation with the general machine construction economy due to specific circumstances and fluctuations in major orders.

Order intake in the Special Gear Units business was below the prior-year level in 2017, due partly to delays in marine gear project schedules. The prior-year figure also included several major orders. In addition to standby orders from various multi-year coast guard and marine procurement programs, several orders for individual projects were received in 2017. In the stationary gear unit segment, growth was recorded in mill gear units, while orders for turbo and industrial gear units decreased.

Orders in the Vehicle Transmissions business also fell short of the prior-year level in 2017 because no projects of the extensive scope seen in 2016 were awarded for the delivery of tracked vehicle transmissions. Order intake for Renk's test bench activities also came in below the prior-year level.

Order intake in the Standard Gear Units business developed significantly better than in the previous year due to orders of offshore wind power gear units and marine propulsion systems for specialist applications.

Order intake in the Slide Bearings business declined in the year under review. This was true for both E Standard bearings and project-related bearing applications.

Overall, order intake at Renk declined to €434 million in 2017 (previous year: €486 million). Sales revenue in the year under review was also down against the 2016 figure at €469 million (previous year: €496 million), reflecting both the decline in the Standard Gear Units business that was foreseeable from order intake in the previous year and various project delays in the Special Gear Units business. In view of these circumstances, Renk's operating profit moved back to €60 million (previous year: €67 million). Renk thus once again generated a double-digit operating return on sales.

FINANCIAL STATEMENTS OF MAN SE (HGB)

MAN SE, domiciled in Munich, is the holding company and parent of the MAN Group. It conducts its business in close coordination with Volkswagen Truck & Bus GmbH and Volkswagen AG. Financial management for the MAN Group is performed centrally by MAN SE. MAN SE communicates with the capital markets on behalf of the entire MAN Group.

Business developments

MAN SE's business developments largely correspond to those of the MAN Group and are described in detail in the chapter entitled "Course of business and economic position of the MAN Group in 2017."

MAN SE recorded a profit after tax of €193 million for fiscal 2017 before the transfer of profit, compared with a loss after tax of €99 million before loss absorption in the previous year. The improvement of €292 million was primarily due to the positive net tax income and higher net income from investments.

Results of operations

€ million	2017	2016
Net investment income	179	63
Net interest expense	10	– 34
Sales revenue	22	20
Cost of sales	– 21	– 17
Gross profit	**1**	**3**
General and administrative expenses	– 52	– 56
Other operating income	29	15
Other operating expenses	– 31	– 15
Taxes on income	57	– 75
Profit/loss after tax	**193**	**– 99**
Loss absorbed/profit transferred on the basis of a domination and profit and loss transfer agreement	**– 193**	**99**
Net income for the fiscal year	**–**	**–**

Net investment income improved by €116 million year-on-year, mainly due to lower losses from profit and loss transfer agreements. Net investment income in the previous year was diminished by the operating loss recorded by MAN Diesel & Turbo SE, which resulted mainly from restructuring expenses.

The net interest income improved significantly due to the repayment of the last outstanding publicly offered bond of €750 million on March 13, 2017.

General and administrative expenses were reduced by €4 million. Other operating income was up €14 million on the previous year and in the year under review included subsequent purchase price adjustments for prior-period taxes of a former subsidiary, including interest. Other operating expenses increased by €16 million to €31 million, mainly as a result of higher expenses from foreign currency translation.

Net income for the fiscal year before profit transfer amounting to €193 million was transferred to Volkswagen Truck & Bus GmbH in accordance with the domination and profit and loss transfer agreement entered into with that company in fiscal 2013. The loss of €99 million in the previous year was absorbed by Volkswagen Truck & Bus GmbH.

As a result of the domination and profit and loss transfer agreement, MAN SE does not distribute dividends and has not done so since fiscal year 2014. Volkswagen Truck & Bus GmbH will make the contractually defined cash compensation payment (€3.07) to each MAN SE free float shareholder.

Net assets and financial position

€ million	2017	2016
Fixed assets	5,341	5,356
Receivables [1]	370	461
Bank balances	248	264
Total assets	**5,959**	**6,081**
Equity	2,125	2,125
Financial liabilities to banks and others	203	805
Other liabilities and provisions	3,631	3,151
Total equity and liabilities	**5,959**	**6,081**

[1] Including deferred items and excess arising from the offset of assets and liabilities

Total assets decreased by €122 million year-on-year to €5,959 million. As of the reporting date, MAN SE's fixed assets primarily comprised shares in affiliated companies (€3,955 million; previous year: €3,744 million) and other long-term equity investments (€1,305 million; previous year: €1,306 million), in particular the shares in Scania acquired in fiscal years 2006 through 2008. The share of total assets attributable to fixed assets rose to 89.6% as of December 31, 2017 (previous year: 88.1%).

Bank balances from the Group's central financing by MAN SE decreased by €16 million to €248 million in the fiscal year. Other current assets declined by €91 million to €370 million.

Total equity did not change compared with the previous year. The ratio of equity to total assets was 35.7% as of December 31, 2017 (previous year: 35.0%).

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 €602 million year-on-year to €203 million (previous year: €805 million). These stem from the MAN Group's central financing, among other sources.

Other liabilities and provisions mainly include liabilities to affiliated companies, provisions for taxes, liabilities to other long-term investees and investors, and other provisions. Other provisions mainly relate to risks in connection with the sale of equity investments, risks in connection with obligations under public law, obligations to employees, and other specific risks.

Net liquidity/net financial debt is calculated as bank balances, receivables from intragroup finance transactions, loans to Group companies, and marketable securities, less financial liabilities to banks/others and less financial liabilities from intragroup finance transactions. MAN SE's net liquidity amounted to €–3,004 million as of December 31, 2017 (previous year: €–2,817 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 HGB.

Additional information

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

The principles governing the remuneration system for members of the Executive and Supervisory Boards are explained in the remuneration report, which forms part of the Management Report in accordance with section 315 of the HGB. The remuneration of the members of the Executive and Supervisory Boards is reported individually in the sections entitled "Remuneration of the Executive Board" and "Remuneration of the Supervisory Board" in the Notes to the Consolidated Financial Statements. MAN SE employed 195 people as of December 31, 2017 (previous year: 176).

Outlook

MAN SE is the holding company and parent of the MAN Group. All significant wholly owned investees in Germany – in particular, MAN Truck & Bus AG and MAN Diesel & Turbo SE, which are material divisions – are linked to MAN SE by way of domination and profit and loss transfer agreements. As a result, their earnings are recognized directly by MAN SE. The expected business developments described in the outlook for the Group will continue to influence MAN SE's earnings. The outlook for the Group therefore also applies to MAN SE. See the Report on Expected Developments for further information.

REPORT ON RISKS AND OPPORTUNITIES

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

Managing risks and opportunities is an integral part of corporate management and business processes. In 2018, the focus will be on market risk.

Company-wide risk management system

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

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

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

Risk management organization

Overall responsibility for setting up and maintaining an appropriate and focused risk early recognition system lies with MAN SE's Executive Board, which has defined the scope and focus of the risk management and internal control system based on the Company's specific requirements. The Group policy "Central Risk Management of the MAN Group" ("Group policy"), which was fundamentally revised in 2017, provides the framework for a common understanding of the risk management system throughout the Group and contains guidelines on organizational structure, processes, and reporting. Divisional management is responsible for ensuring that all Group companies are integrated into the opportunity and risk management and internal control systems in accordance with the Group policy. Inclusion in the standard GRC process is subject to Volkswagen AG's materiality criteria, among other conditions. Compliance with the requirements of the risk management system is verified by the Corporate Audit function.

Organizational structure

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

Opportunity and risk management processes and standard GRC process

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

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

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

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

Reporting

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

Accounting-related risk management and internal control system

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

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

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

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

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

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

Opportunities and risks

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

Markets

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

In our view, volatility on the financial markets, protectionist tendencies, and structural deficits are the main risks to the continued growth of the global economy. They pose a threat to growth in some advanced economies and emerging economies. The transition from an expansionary to a more restrictive monetary policy worldwide also harbors risks in the overall economic environment. Moreover, the effects of the United Kingdom's plan to leave the EU are associated with uncertainties. Private and public sector debt remain high in many places; this also hinders growth prospects and can trigger negative market reactions. Declines in growth in key countries and regions often have an immediate impact on the state of the global economy and therefore pose a central risk.

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

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

Overall, we do not expect a global recession in 2018. Due to the risk factors listed, however, the possibility of a decline in global economic growth or a period of below-average growth rates cannot be ruled out.

Forming part of the capital goods industry, MAN is additionally exposed to fluctuations in the investment climate. Even small changes to growth rates, growth forecasts, and government investment incentives can lead to significant changes in the demand for capital goods in the markets relevant for the MAN Group, or orders being canceled. Flexible production concepts and cost flexibility through temporary work, flextime accounts, short-time working, and the option of structural adjustments enable MAN to counter economic sales risks. Structural adjustments may involve substantial nonrecurring expenses. For example, significant structural adjustments were implemented at all major European production sites of the Turbomachinery strategic business unit of MAN Diesel & Turbo due to the decline in demand worldwide, the industry-wide overcapacity, and the lower prices in 2017 in order to improve competitiveness in the future.

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

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

Changes in legislation, taxes, or customs duties, or in environmental regulations in individual countries may also entail risks to MAN. MAN continuously monitors and assesses the economic, political, legal, and social environment so that the resulting opportunities and risks can be promptly incorporated into corporate decisions. MAN manages risks arising from changes to environmental regulations such as the tightening of emission standards by expanding its product portfolio as appropriate and modifying existing products or production processes.

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

Products

As a leading supplier of advanced technology, it is the MAN Group's mission to develop and launch technologically superior and highly cost-effective products that are of outstanding quality. Abandoning this mission would pose an unjustifiable risk to MAN's market position. During the product development phase, there is a considerable risk that budgeted costs will be exceeded. The rollout of new products involves both conceptual and market risks, which MAN manages through a careful strategic planning process based on an analysis of trends in the market and business environment. The resulting product plans are used to manage our extensive research and development activities. Annual research and development expenditures amount to around 5% of Group sales revenue. MAN Diesel & Turbo's MAN 20V45/60 (the world's most powerful four-stroke engine), the MAN 175D compact high-speed marine engine, and the highly efficient MGT 6000 gas turbine series show how these risks can be overcome in the Power Engineering business area. Another example is the MAN TGE van, which was developed in cooperation with Volkswagen AG and enlarges MAN Truck & Bus's portfolio to include a product from the light-duty commercial vehicles segment. The divisions are expanding their business models in order to be able to meet the requirements of increasing digitization: they are developing new mobility solutions, such as freight optimization and fleet capacity utilization, and see the challenges posed by the digital transformation as an opportunity. The growing market for telematics services offers specific growth opportunities that MAN Truck & Bus aims to leverage on the basis of the RIO platform.

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

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

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

Long-term customer contracts give rise to additional risks. For example, changes in the political or economic conditions in a particular market may result in additional expenditure on major projects. At MAN Truck & Bus, buy-back obligations pose a risk if the amount obtainable from the future sale of a used vehicle in the market changes significantly from expectations at the time the contract was concluded. In cases where guarantees or guarantee obligations form an integral part of the customer contracts, there is a risk that an unjustified claim will be made. This risk is combated by formulating contracts carefully.

Processes

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

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

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

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

The MAN Group's business processes are intensively supported, and in some cases enabled, by information technology. Besides improving efficiency, this also gives rise to risks. Parts of the infrastructure may fail as a result of accidents, disasters, technical faults, or cyberattacks, thereby impairing business processes or bringing them to a complete standstill. There is also the risk of unauthorized access, theft, or the destruction or other misuse of business data and information. The resulting financial damage and loss of image may affect individual MAN companies or even the entire MAN Group. In order to ensure the availability, integrity, and confidentiality of information so as to mitigate and prevent risk, MAN uses a risk-based information security management system, as well as a combination of the latest hardware and software technologies, effective IT organizational mechanisms, and a continuously enhanced IT-related internal control system.

The centralization and selective sourcing of IT tasks and the systematic introduction of IT service management processes in accordance with the ITIL (IT Infrastructure Library) standard for the organization of IT processes help ensure that business processes are efficiently supported. By organizing information security on the basis of the internationally recognized ISO 27001 standard, the MAN Group has significantly improved the transparency and reliability of its IT processes and IT infrastructure.

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

Employees

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

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

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

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

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

Finances

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

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

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

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

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

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

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

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

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

As in the previous year, market risk continues to outweigh the other risk fields. There have been no significant changes to the overall risk position. The opportunities identified may be able to only partially offset the risks. With regard to the risks reported on in the MAN Group's GRC Board, the Executive Board is convinced that there are no major risks in the areas that are not covered individually or overall by the projected operating profit on the basis of the net assessment performed. This also applies to risks for which a higher gross impact was calculated since risk-mitigating measures were taken for these or their probability of occurrence was assumed to be low. Of all the risk fields, the Executive Board sees the most significant short-term risks in the market risk field. For both the Commercial Vehicles and Power Engineering business areas, these are risks in margin and unit sales development, as well as uncertainty in the relevant markets. The Power Engineering business area is also exposed to risks arising from strong competitive pressure, especially in Asia. Product-related risks primarily include excess costs in the further development of our products. The main process-related risks arise from legal disputes. Among financial risks, future currency developments are also an area of significant uncertainty. The short-term risks in the employee risk field are of minor significance.

On the basis of the risk management system established by the MAN Group, the Executive Board has again determined that, at the present time, there are no identifiable risks that could have a material and long-term adverse effect on the net assets, financial position, and results of operations of the MAN Group. The risk management system introduced by the Group and the related organizational measures allow the Executive Board to identify risks rapidly and initiate appropriate measures. Given the uncertainty surrounding developments in some areas, activities in 2018 will continue to focus on market risk management.

REPORT ON EXPECTED DEVELOPMENTS

Slightly weaker global economic growth; sales revenue up slightly on the previous year in 2018; operating profit on a level with the previous year

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 economy will grow at a slightly weaker pace in 2018. We see risks in protectionist tendencies, volatility on the financial markets, and structural deficits in individual countries. In addition, geopolitical tensions and conflicts will continue to weigh on growth prospects. We therefore expect a slightly weaker pace of growth than in 2017 for both the advanced economies and the emerging economies, with the highest rates expected in the emerging economies of Asia.

Economic growth in Western Europe is likely to slow slightly in 2018 compared to the year under review. The resolution of structural problems as well as the unknown results and effects of the exit negotiations between the EU and the United Kingdom present major challenges. In Germany, gross domestic product (GDP) is expected to grow at a slower rate than in the year under review: however, the stable situation in the labor market is likely to continue, boosting consumer spending.

We anticipate lower growth rates for Central Europe in 2018 than those recorded in the past fiscal year. The economic situation in Eastern Europe should continue to stabilize, provided the latent conflict between Russia and Ukraine does not intensify. Economic output in Russia will presumably increase further after the growth recorded last year.

We expect the economic situation in North America to continue improving in 2018. The U.S. Federal Reserve will likely implement further interest rate hikes over the course of the year. At the same time, fiscal policy measures should have a positive impact. The pace of growth is expected to decline in Canada and remain virtually on a level with the previous year in Mexico.

The economy in Brazil will, in all likelihood, further stabilize in 2018 and record slightly stronger growth than in the year under review. Argentina's GDP is expected to grow at a similar pace as in the year under review despite persistently high inflation.

China's economic growth will probably remain at a relatively high level in 2018, but will be slower than in previous years. In India, the economy should expand at around the same rate as in 2017.

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

We expect growth in the European truck market to decline slightly overall in 2018 compared with the year under review. For Western Europe, we anticipate that demand will be slightly lower than in the previous year. In Germany, Eastern, and Central Europe, we predict that the market will be on a level with the previous year.

In Russia, we expect a further recovery in demand in 2018, although the growth rates of 2017 will not be matched.

The Brazilian truck market should grow noticeably in 2018 due to the ongoing recovery of the economy.

The bus markets relevant to MAN should see a modest increase in demand in 2018. In Western Europe, we expect demand in 2018 to be in line with the 2017 level. We anticipate stronger demand than in the previous year in Central and Eastern Europe, and in Russia. New registrations in Brazil should be slightly higher year-on-year.

Power Engineering: market environment remains strained

We expect the difficult market environment for the Power Engineering business area to persist in 2018, with price and competitive pressure continuing unabated.

The market volume for two-stroke engines used in merchant shipping is expected to expand slightly in 2018 compared with the year under review. Demands for high energy efficiency and low pollution will continue to significantly influence ship design in the future. We also expect demand in the market for four-stroke engines for cruise liners, ferries, dredgers, and government vessels to remain strong. Despite the recent slight increase in oil prices, it appears that new orders in the offshore segment will come in at only a very low level due to the existing overcapacity. Overall, we expect the marine market to expand slightly compared with the year under review. Competitive pressure will continue unabated.

Energy demand is closely correlated with economic and demographic trends, particularly in developing countries and emerging economies. The global trend toward decentralized power plants and gas-based applications remains undiminished. For 2018, we expect demand to be on a level with the previous year, but remain low overall.

As a result of the continuing difficult market environment, persistently high price and competitive pressures are expected in the Turbomachinery strategic business unit in 2018 due to expectations of a continued unfavorable economic and political situation in a number of relevant markets. However, we believe the turbomachinery market to have bottomed out and therefore expect it to grow again slightly in 2018.

We expect the after-sales market for diesel engines in the marine and power plant sector to develop positively in 2018. We anticipate a slight upward trend in the turbomachinery segment.

Once again, the market for propulsion components is likely to benefit from the ongoing growth trend in the machine construction sector in 2018.

Executive Board’s sales revenue and earnings expectations

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

We anticipate slight growth in the MAN Group’s sales revenue in 2018 to which all divisions are likely to contribute. In this connection, we expect a moderate increase in unit sales in the Commercial Vehicles business area. We anticipate that order intake in the Power Engineering business area will be on a level with the previous year.

Operating profit of the MAN Group will remain largely unchanged year-on-year, causing the operating return on sales to decline slightly. Operating profit in the Commercial Vehicles business area will increase slightly. MAN Latin America will significantly improve on its operating loss due to higher sales volume. For MAN Truck & Bus, on the other hand, we expect a slight decline in operating profit due to continuing high expenses for new products, new drive concepts, automation, and digital transformation, as well as intense competition. The operating return on sales in the Commercial Vehicles business area will be up slightly on the prior-year level. Operating profit in the Power Engineering business area will decline slightly. The operating return on sales will be noticeably below the 2017 level, due, among other factors, to continuing price pressure in what remains a persistently difficult market environment.

The new accounting standards IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) are applied for the forecast for fiscal 2018. We do not expect these two changes to have a material impact on sales revenue and operating profit. See the Notes to the Consolidated Financial Statements for further information.

Long-term growth strategy

Overall, global demand for innovative solutions in the transportation and energy sectors will continue to rise in the long term. The MAN Group will continue to pursue a profitable growth strategy going forward. Customer focus and technology leadership remain key success factors. The after-sales business is being continually expanded. MAN is actively driving change to make the world of transportation and energy more efficient, environmentally friendly, and safer. In pursuing this goal, the Company develops products and solutions that meet the needs of customers and markets. The focus here is on digitization, automation, and alternative, climate-friendly drives.

Clean drives are becoming increasingly important. MAN is making every effort to reduce emissions and increase energy efficiency. The aim is to deploy a broad spectrum of alternative drives and fuels as part of this endeavor – depending on geographic availability, societal demand, and customer requirements.

Automation is a key factor in the technologies and products of tomorrow. In this respect, MAN is gradually gaining experience and systematically preparing to put said experience into practice as soon as the necessary legal provisions and standards have been introduced.

Digitization is fundamentally changing the modern world and permeating every area of the Company. MAN is driving the networking of transportation across the entire value chain so as to achieve maximum efficiency through digital interlinking. MAN is also leveraging the opportunities offered by the digital transformation to tap into new potential by means of innovative business models.

Measures to improve earnings in all divisions

MAN has taken measures to secure profitability in all divisions. In the commercial vehicles business, MAN Truck & Bus will focus on continuous improvement and operational excellence, even following the completion of the PACE2017 program for the future. In 2018, MAN Latin America will still be benefitting from the structural improvements initiated back in 2016. MAN Diesel & Turbo is continuing its Base Camp 3000+ program for the future to safeguard the company's profitability and sustainable business development. The package of measures aims to sustainably improve MAN Diesel & Turbo's earnings. As well as updating the strategy and portfolio, the program is designed to optimize internal processes and substantially improve the cost structure. Efficiency and optimization measures are being implemented, particularly for site structures, development and sales, quality, and product costs.

MAN as part of the Volkswagen Truck & Bus Group

MAN Truck & Bus, MAN Latin America (most of whose vehicle sales are made through Volkswagen Caminhões e Ônibus), and Scania work closely together under the umbrella of the Volkswagen Truck & Bus Group. The aim is to turn Volkswagen Truck & Bus and its brands into a Global Champion. The brands will, however, retain their identities and full operational responsibilities. Given the long product lifecycles in the commercial vehicles business, it will take 10 to 15 years before the synergy potential from this alliance has been fully exploited. The entire powertrain – the most important cost driver for a truck – is relevant for joint development activities in the long term.

An important step here is the lead engineering concept, which sets out clear principles for joint development activities within the Group. Cross-brand teams from MAN Truck & Bus, MAN Latin America, and Scania are jointly developing core powertrain components under the umbrella of Volkswagen Truck & Bus. 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 electrification and autonomous driving. Efficiency, zero emissions, and sustainability are becoming increasingly important in this respect.

Partnerships will play an significant role along the road to becoming a Global Champion. In 2016, Volkswagen Truck & Bus GmbH entered into a far-reaching alliance with U.S. commercial vehicles manufacturer Navistar International Cooperation, Lisle, U.S.A. (Navistar). The alliance includes master agreements for strategic technology and supply collaboration and a joint venture to pursue joint global sourcing opportunities.

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 re-assessment 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 2017, which will be available in German at **https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2017/Nichtfinanzieller_Bericht_2017_d.pdf** and in English at **https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2017/Nonfinancial_Report_2017_e.pdf** as of April 30, 2018, at the latest.

REMUNERATION REPORT FOR FISCAL YEAR 2017

Executive Board remuneration

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

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

In fiscal 2017, Executive Board members were appointed at MAN SE who received remuneration from MAN Truck & Bus AG (Mr. Drees, Dr. Intra, and Mr. Lafrentz), MAN Diesel & Turbo (Dr. Lauber), and Volkswagen AG (Mr. Schelchshorn), respectively, on the basis of their employment contracts with those companies and in accordance with the remuneration structure and components in effect there. They received no further remuneration from MAN SE. MAN SE reimbursed Volkswagen AG for 10% of the remuneration paid to Mr. Schelchshorn until his departure from the Executive Board at midnight on June 30, 2017, including the expenses needed to finance the occupational pension plan. MAN Truck & Bus AG reimbursed Volkswagen AG for 65% of the remuneration paid to Mr. Schelchshorn until his departure from the Executive Board at midnight on June 30, 2017, including the expenses needed to finance the occupational pension plan.

Remuneration structure and components

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

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

A) Fixed remuneration

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

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

B) Variable remuneration

MAN Truck & Bus AG / MAN Diesel & Turbo SE

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 Volkswagen Truck & Bus. The success of MAN Truck & Bus is based on the operating profit of MAN Truck & Bus (weighting of two-thirds) and the success of Volkswagen Truck & Bus on the return on sales (RoS) of Volkswagen Truck & Bus (weighting of one-third). The calculation is based on a two-year period.

Target achievement is calculated as follows:

- Operating profit of MAN Truck & Bus: The average operating profit from the year under review and the previous 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.
- Return on Sales (RoS) of Volkswagen Truck & Bus: 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 Volkswagen Truck & Bus GmbH 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 Diesel & Turbo SE's **company performance bonus** enables the Executive Board to participate in the business success of MAN Diesel & Turbo. The success of MAN Diesel & Turbo is based on the operating profit of MAN Diesel & Turbo.

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 Diesel & Turbo 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 Diesel & Turbo SE, respectively.

Volkswagen AG

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

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

The **long-term incentive bonus** is directly linked to the targets of the Strategy 2018 program of the Volkswagen Group. It is based on the success criteria derived from the strategy and calculated over a four-year period. The amount of the long-term incentive bonus is generally limited to 200% of the target amount.

The target areas are:

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

The Customer Satisfaction Index is calculated using indicators that quantify the overall satisfaction of our customers with the delivering dealers, new vehicles, and the service operations based on 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 also financially successful. If the 1.5% threshold for the return on sales is not exceeded, the Return Index is zero. This would mean that the overall index for the fiscal year concerned is also zero.

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

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 is determined for each individual in a process that involves several parties.

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

C) Occupational pension system

MAN Truck & Bus AG / MAN Diesel & Turbo SE

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, Dr. Intra, and Mr. Lafrentz) and MAN Diesel & Turbo 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. 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 annual salary.

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

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

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

Special contract provisions
In the event of the early termination of their contract without 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.

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

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

Mr. Schelchshorn did not have any pension entitlements from MAN SE as of his departure from the Executive Board at midnight on June 30, 2017, and Mr. Lafrentz does not have any pension entitlements from MAN SE. Instead, MAN Truck & Bus AG has undertaken to assume the expenses associated with continuing the existing pension entitlements for Mr. Lafrentz in the Volkswagen Group.

In addition, a special arrangement relating to guaranteed variable remuneration was agreed with Dr. Intra, Mr. Lafrentz, Dr. Lauber, and Mr. Schelchshorn. Mr. Drees, Dr. Intra, Mr. Lafrentz, Dr. Lauber, and Mr. Schelchshorn were entitled to guaranteed variable remuneration already for fiscal year 2016.

Mr. Drees was entitled to a guaranteed monthly bonus from January until June 2017.

Mr. Drees received a special bonus in fiscal years 2016 and 2017. Dr. Intra received a special bonus in fiscal year 2016.

Executive Board members' remuneration in 2017
The remuneration awarded to active members of the Executive Board for their services in fiscal 2017 totaled €5,719 thousand plus €629 thousand for pensions (previous year: €4,535 thousand plus €449 thousand for pensions). The present value of the benefit obligations amounted to €2,381 thousand as of December 31, 2017, of which €515 thousand was attributable to Mr. Drees, €1,360 thousand to Dr. Intra, and €505 thousand to Dr. Lauber. The present value of the benefit obligations to members of the Executive Board in office at the end of 2016 amounted to €276 thousand as of December 31, 2016. Please see note (37) in the Notes to the Consolidated Financial Statements and the following tables for details of the Executive Board members' individual remuneration.

Executive Board members' remuneration is reported individually in this remuneration report on the basis of the uniform model tables recommended in the German Corporate Governance Code (version dated 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 2017 (benefits granted)

	Joachim Drees [1, 2] Chief Executive Officer			
€ thousand	2016	2017	2017 (Min)	2017 (Max)
Fixed remuneration	450	510	510	510
Fringe benefits	88	64	64	64
Total	**538**	**574**	**574**	**574**
One-year variable remuneration (PPB)	225	285	0	570
Multi-year variable remuneration				
CPB (2 years)	225	285	0	570
LTI (4 years)	225	285	0	570
Other (special arrangements)	345	60	60	60
Total	**1,020**	**915**	**60**	**1,770**
Pension expense	210	186	186	186
Total remuneration	**1,768**	**1,675**	**820**	**2,530**

	Dr. Carsten Intra [1, 3] Member of the Board, Chief Human Resources Officer			
€ thousand	2016	2017	2017 (Min)	2017 (Max)
Fixed remuneration	–	225	225	225
Fringe benefits	–	16	16	16
Total	**–**	**241**	**241**	**241**
One-year variable remuneration (PPB)	–	113	0	225
Multi-year variable remuneration				
CPB (2 years)	–	113	0	225
LTI (4 years)	–	113	0	225
Other (special arrangements)	–	0	225	0
Total	**–**	**338**	**225**	**675**
Pension expense	–	84	84	84
Total remuneration	**–**	**663**	**550**	**1,000**

	Jan-Henrik Lafrentz [1, 2] Member of the Board, Chief Financial Officer			
€ thousand	2016	2017	2017 (Min)	2017 (Max)
Fixed remuneration	408	408	408	408
Fringe benefits	33	36	36	36
Total	**441**	**444**	**444**	**444**
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
Other (special arrangements)	0	0	0	0
Total	**612**	**612**	**0**	**1,224**
Pension expense	96	96	96	96
Total remuneration	**1,149**	**1,152**	**540**	**1,764**

[1] MAN Truck & Bus AG employment contract
[2] Joined October 1, 2015
[3] Joined July 1, 2017

Table 1: Executive Board members 2017 (benefits granted)

	Dr. Uwe Lauber [4, 5] Member of the Board			
€ thousand	2016	2017	2017 (Min)	2017 (Max)
Fixed remuneration	–	400	400	400
Fringe benefits	–	26	26	26
Total	**–**	**426**	**426**	**426**
One-year variable remuneration (PPB)	–	200	0	400
Multi-year variable remuneration				
CPB (2 years)	–	200	0	400
LTI (4 years)	–	200	0	400
Other (special arrangements)	–	0	375	0
Total		**600**	**375**	**1,200**
Pension expense	–	165	165	165
Total remuneration	**–**	**1,191**	**966**	**1,791**

	Josef Schelchshorn [6, 7, 8] Member of the Board, Chief Human Resources Officer			
€ thousand	2016	2017	2017 (Min)	2017 (Max)
Fixed remuneration	432	220	220	220
Fringe benefits	36	18	18	18
Total	**468**	**238**	**238**	**238**
One-year variable remuneration (PPB)	280	140	0	280
Multi-year variable remuneration				
CPB (2 years)	280	140	0	280
LTI (4 years)	280	140	0	280
Other (special arrangements)	360	180	600	
Total	**1,200**	**600**	**600**	**840**
Pension expense	143	98	98	98
Total remuneration	**1,811**	**936**	**936**	**1,176**

4 MAN Diesel & Turbo SE employment contract
5 Joined March 1, 2017
6 Volkswagen AG employment contract
7 Joined July 1, 2015
8 Until June 30, 2017

Table 2: Executive Board members 2017 (benefits received)

€ thousand	Joachim Drees [1, 2] Chief Executive Officer		Dr. Carsten Intra [1, 3] Member of the Board, Chief Human Resources Officer		Jan-Henrik Lafrentz [1, 2] Member of the Board, Chief Financial Officer		Dr. Uwe Lauber [4, 5] Member of the Board		Josef Schelchshorn [6, 7, 8] Member of the Board, Chief Human Resources Officer	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Fixed remuneration	450	510	–	225	408	408	–	400	432	220
Fringe benefits	88	64	–	16	33	36	–	26	36	18
Total	**538**	**574**	**–**	**241**	**441**	**444**	**–**	**426**	**468**	**238**
One-year variable remuneration (PPB)	293	428	–	158	316	275	–	240	406	168
Multi-year variable remuneration										
CPB (2 years)	178	353	–	140	161	253	–	148	176	185
LTI (4 years)	266	336	–	133	241	241	–	236	330	166
Other (special arrangements)	434	256	–	0	0	0	–	0	288	81
Total [9]	**1,170**	**1,373**	**–**	**430**	**718**	**769**		**624**	**1,200**	**600**
Pension expense	210	186	–	84	96	96	–	165	143	98
Total remuneration	**1,918**	**2,133**	**–**	**755**	**1,255**	**1,309**	**–**	**1,215**	**1,811**	**936**

[1] MAN Truck & Bus AG employment contract
[2] Joined October 1, 2015
[3] Joined July 1, 2017
[4] MAN Diesel & Turbo SE employment contract
[5] Joined March 1, 2017
[6] Volkswagen AG employment contract
[7] Joined July 1, 2015
[8] Until June 30, 2017
[9] 2016: Adjustment following preparation of the 2016 Annual Report; 2017: Information based on key figures currently available

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 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 2017

The total remuneration payable to the members of the Supervisory Board for 2017 amounts to €1,125 thousand (previous year: €751 thousand). In addition, members of MAN SE's Supervisory Board received remuneration totaling €138 thousand (previous year: €150 thousand) for serving on supervisory boards at Group companies in fiscal 2017. 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 2017.

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, 2017, 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 Volkswagen Truck & Bus GmbH and MAN SE on April 26, 2013, which came into effect on its entry in the commercial register on July 16, 2013, common and preferred shareholders will be paid a compensatory or guaranteed dividend within the meaning of section 304 of the *Aktiengesetz* (AktG — German Stock Corporation Act).

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

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

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

Restrictions affecting voting rights or the transfer of shares

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

Significant shareholdings in MAN SE

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

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

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

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

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

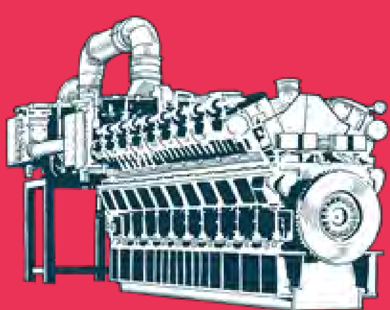
Powers of the Executive Board

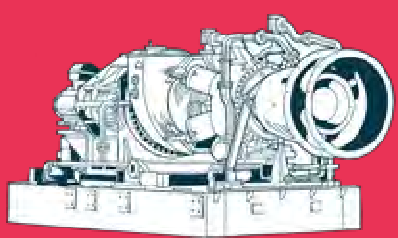
The powers of the Executive Board are governed by section 39 of the SE-VO in conjunction with sections 77ff. of the AktG and Article 6 of the Articles of Association. These provisions require the Executive Board to manage the Company independently and to represent the Company both in and out of court.

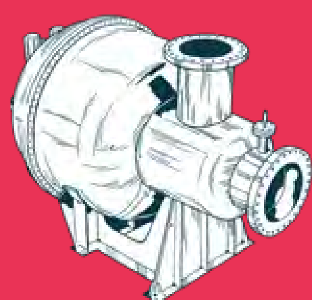
3

CONSOLIDATED FINANCIAL STATEMENTS

PAGES
81 — 154







18V51/60G TS GAS ENGINE

Boasting an output of 20.7 megawatts and a mechanical efficiency of over 50%, the two-stage turbocharged gas engine is currently the most powerful on the market for producing energy.

MGT-6000 GAS TURBINE

A mechanical efficiency of 34% coupled with extremely low emissions makes this gas turbine the most modern in the 6-megawatt category. Combined heat and power plants equipped with this turbine achieve efficiency of up to 90%.

MAN SCR-HP REACTOR

The new high-pressure SCR system for two-stroke engines reduces NO_x exhaust emissions to IMO Tier III limits. The size of the reactor has been drastically reduced compared to others on the market thanks to specially developed honeycombs and honeycomb materials.

3
PAGE
81
–
154

CONSOLIDATED FINANCIAL STATEMENTS

MAN CONSOLIDATED INCOME STATEMENT

€ million	Note	2017	2016
Sales revenue	[6]	14,342	13,564
Cost of sales		– 11,671	– 11,033
Gross profit		**2,671**	**2,531**
Other operating income	[7]	655	592
Distribution expenses		– 1,626	– 1,565
General and administrative expenses		– 770	– 757
Other operating expenses	[8]	– 364	– 597
Operating profit		**566**	**204**
Share of profits and losses of equity-method investments	[17]	73	19
Interest income [1]	[9]	53	38
Interest cost [1]	[9]	– 180	– 191
Other financial result [1]	[10]	21	– 21
Financial result		**– 32**	**– 155**
Profit before tax		**533**	**49**
Income taxes	[11]	– 229	– 55
Current		– 90	– 208
Deferred		– 139	152
Income from discontinued operations, net of tax	[5]	17	–
Profit/loss after tax		**321**	**– 7**
of which attributable to noncontrolling interests		10	12
of which attributable to shareholders of MAN SE		**311**	**– 18**
Earnings per share from continuing operations in € (diluted/basic)	[12]	**2.00**	**– 0.12**
Earnings per share from continuing and discontinued operations in € (diluted/basic)	[12]	**2.12**	**– 0.12**

[1] The financial result structure was changed. Interest income and cost are now presented instead of finance costs. Prior-year figures were adjusted accordingly. See also the "Net interest expense" item for additional information

MAN CONSOLIDATED RECONCILIATION OF COMPREHENSIVE INCOME FOR THE PERIOD

€ million	Note	2017	2016
Profit/loss after tax		**321**	**– 7**
Items that will not be reclassified to profit or loss			
Pension plan remeasurements	[26]	66	– 190
Other comprehensive income for the period from equity-method investments	[17]	– 2	– 1
Deferred taxes		– 12	56
Items that will be reclassified subsequently to profit or loss			
Currency translation differences		– 209	163
Measurement of marketable securities and financial investments		335	129
Change in fair values of derivatives	[34/35]	– 6	63
Other comprehensive income for the period from equity-method investments	[17]	– 17	– 2
Deferred taxes		– 3	– 23
Other comprehensive income		**151**	**195**
Total comprehensive income		**472**	**189**
of which attributable to noncontrolling interests		11	12
of which attributable to shareholders of MAN SE		**462**	**177**

See also note (24) for additional information on equity

MAN CONSOLIDATED BALANCE SHEET

Assets

€ million	Note	12/31/2017	12/31/2016
Intangible assets	[15]	2,321	2,229
Property, plant, and equipment	[16]	2,639	2,545
Equity-method investments	[17]	522	463
Other equity investments	[18]	3,213	2,897
Assets leased out	[19]	3,504	3,239
Income tax receivables		21	22
Deferred tax assets	[11]	575	541
Other noncurrent financial assets	[22]	34	327
Other noncurrent receivables	[23]	563	533
Noncurrent assets		**13,391**	**12,795**
Inventories	[20]	3,397	3,246
Trade receivables	[21]	2,171	2,038
Current income tax receivables		61	75
Other current financial assets	[22]	136	200
Other current receivables	[23]	344	289
Cash and cash equivalents		782	796
Current assets		**6,892**	**6,643**
		20,282	**19,438**

Equity and Liabilities

€ million	Note	12/31/2017	12/31/2016
Subscribed capital		376	376
Capital reserves		795	795
Retained earnings		3,904	3,786
Accumulated other comprehensive income		945	795
Equity attributable to shareholders of MAN SE		**6,020**	**5,752**
Noncontrolling interests		104	98
Total equity	[24]	**6,125**	**5,850**
Noncurrent financial liabilities	[25]	1,490	421
Pensions and other post-employment benefits	[26]	590	624
Deferred tax liabilities	[11]	329	143
Noncurrent income tax provisions		108	190
Other noncurrent provisions	[27]	733	772
Other noncurrent financial liabilities	[28]	1,741	1,602
Other noncurrent liabilities	[29]	1,202	1,100
Noncurrent liabilities and provisions		**6,193**	**4,851**
Current financial liabilities	[25]	1,611	2,574
Trade payables		1,925	1,914
Prepayments received		655	705
Current income tax payables		46	20
Current income tax provisions		129	27
Other current provisions	[27]	1,036	1,206
Other current financial liabilities	[28]	1,110	935
Other current liabilities	[29]	1,452	1,355
Current liabilities and provisions		**7,964**	**8,736**
		20,282	**19,438**

MAN CONSOLIDATED STATEMENT OF CASH FLOWS

€ million	2017	2016
Cash and cash equivalents at beginning of period	**796**	**779**
Profit before tax	533	49
Income taxes refunded/paid	– 140	63
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property [1]	358	349
Amortization of, and impairment losses on, capitalized development costs [1]	98	101
Impairment losses on equity investments	0	2
Depreciation of assets leased out [1]	610	562
Change in pension provisions	27	– 70
Loss on disposal of noncurrent assets and equity investments	– 14	– 3
Share of losses of equity-method investments	– 67	– 16
Other noncash income	– 17	5
Change in inventories	– 249	– 121
Change in receivables	– 342	43
Change in liabilities and prepayments received (excluding financial liabilities)	501	615
Change in provisions	– 165	134
Change in assets leased out	– 865	– 879
Net cash provided by operating activities	**268**	**833**
Payments to acquire property, plant, and equipment and intangible assets (excluding capitalized development costs)	– 496	– 579
Additions to capitalized development costs	– 323	– 276
Payments to acquire other investees	– 26	– 6
Proceeds from the disposal of other investees	6	0
Proceeds from asset disposals (other than assets leased out)	30	30
Change in loans and time deposits	295	103
Net cash used in investing activities	**– 514**	**– 728**
Dividends allocated to noncontrolling interests	– 4	– 4
Loss absorption/profit transfer	99	– 513
Capital transactions with noncontrolling interests	–	– 3
Repayment of bonds	– 750	– 500
Change in other financial liabilities	917	894
Net cash provided by/used in financing activities	**262**	**– 126**
Effect of exchange rate changes on cash and cash equivalents	– 30	39
Change in cash and cash equivalents	**– 14**	**17**
Cash and cash equivalents at the end of period	**782**	**796**

[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, 2015	**376**	**795**	**3,705**	**600**	**5,476**	**89**	**5,565**
Profit/loss after tax	–	–	– 18	–	– 18	12	– 7
Other comprehensive income	–	–	–	195	195	0	195
Total comprehensive income	–	–	– 18	195	177	12	189
Dividends allocated to noncontrolling interests	–	–	–	–	–	– 4	– 4
Loss absorption by Volkswagen Truck & Bus GmbH	–	–	99	–	99	–	99
Other changes	–	–	–	–	–	2	2
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 Volkswagen Truck & Bus GmbH	–	–	– 193	–	– 193	–	– 193
Other changes	–	–	0	0	0	–	0
Balance at December 31, 2017	**376**	**795**	**3,904**	**945**	**6,020**	**104**	**6,125**

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 and mechanical engineering groups and focuses on activities in the areas of transportation and energy.

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, 2017, 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 9, 2018, and resolved to authorize them for submission to the Supervisory Board.

MAN SE is a subsidiary of Volkswagen Truck & Bus GmbH, Braunschweig, a wholly owned direct subsidiary of Volkswagen Aktiengesellschaft, Wolfsburg (Volkswagen AG). Volkswagen Truck & Bus GmbH holds a 74.55% interest in MAN SE's capital. MAN SE is included in Volkswagen AG's consolidated financial statements, which are published in the Federal Gazette (*Bundesanzeiger*).

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. As a rule, significant influence is assumed 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 recognized at their cost, net of any impairment losses required to 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, 2016	**20**	**84**	**104**
Initially consolidated in fiscal 2017	–	1	1
Deconsolidated in fiscal 2017	–	4	4
Consolidated as of December 31, 2017	**20**	**81**	**101**

The change in the MAN Group's basis of consolidation in fiscal year 2017 resulted, in particular, from the initial consolidation of an existing company that has now started operations. The initial consolidation of this company did not have any material influence on the presentation of the financial position, net assets, and results of operations either individually or in the aggregate. The deconsolidated companies are mainly the result of intragroup mergers.

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
- GETAS Verwaltung GmbH & Co. Objekt Heinrich-von-Buz-Straße KG, Pullach i. Isartal
- GETAS Verwaltung GmbH & Co. Objekt Augsburg KG, Pullach i. Isartal
- HABAMO Verwaltung GmbH & Co. Objekt Sterkrade 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
- MAN Diesel & Turbo SE, Augsburg.

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 for which a quoted market price or a reliably determinable fair value is available are measured at that amount. Financial investments in equity instruments that are classified as available for sale but for which no quoted price is available in an active market and whose fair value cannot be measured reliably are measured at cost. If there are indications that the carrying amount may be impaired, financial investments carried at cost are tested for impairment; any impairment loss is recognized in the income statement.

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, 2017.

Since January 1, 2017, the amendments to IAS 12 (Income Taxes) have clarified the recognition of deferred tax assets for unrealized losses in the case of assets carried at fair value.

From January 1, 2017, IAS 7 (Statement of Cash Flows) requires entities to make additional disclosures on changes arising from cash flows and noncash changes in financial liabilities arising from financing activities as reported in the statement of cash flows. These disclosures must be made for the first time in the notes to the 2017 annual financial statements. Prior-year figures are not presented.

The International Accounting Standards Board amended IFRS 12 (Disclosure of Interests in Other Entities) as part of its 2016 annual improvements project, with effect from January 1, 2017. This clarifies that, as a matter of principle, disclosures in accordance with IFRS 12 must also be made for the entity's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities even if these are classified as held for sale, held for distribution to owners, or as discontinued operations.

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

The other accounting pronouncements required to be applied in fiscal year 2017 for the first time also do not have any material effects on the presentation of the net assets, financial position, and results of operations in the MAN consolidated financial statements.

b) New or amended IFRSs not applied

In its 2017 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 2	Classification and Measurement of Share-based Payment Transactions	June 20, 2016	Jan. 1, 2018	No	None
IFRS 4	Insurance Contracts: Applying IFRS 9 to Insurance Companies	Sept. 12, 2016	Jan. 1, 2018	Yes	None
IFRS 9	Financial Instruments	July 24, 2014	Jan. 1, 2018	Yes	Detailed description below
	Prepayment Features with Negative Compensation	Oct. 12, 2017	Jan. 1, 2019	No	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 its Associate or Joint Venture	Sept. 11, 2014	Postponed [2]	–	None
IFRS 15	Revenue from Contracts with Customers	May 28, 2014	Jan. 1, 2018 [3]	Yes	Detailed description below
	Clarifications to IFRS 15 – Revenue from Contracts with Customers	April 12, 2016	Jan. 1, 2018	Yes	Additional relief for the initial application of IFRS 15, otherwise no material effects
IFRS 16	Leases	Jan. 13, 2016	Jan. 1, 2019	Yes	Detailed description below
IFRS 17	Insurance Contracts	May 18, 2017	Jan. 1, 2021	No	None
IAS 28	Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures	Oct. 12, 2017	Jan. 1, 2019	No	None
IAS 40	Transfers of Investment Property	Dec. 8, 2016	Jan. 1, 2018	No	No material effects
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Dec. 8, 2016	Jan. 1, 2018	No	None
IFRIC 23	Uncertainty over Income Tax Treatments	June 7, 2017	Jan. 1, 2019	No	No material effects
	Improvements to IFRSs 2016 [4]	Dec. 8, 2016	Jan. 1, 2018 [5]	No	None
	Improvements to IFRSs 2017 [6]	Dec. 12, 2017	Jan. 1, 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] Postponed until January 1, 2018 (IASB decision dated September 11, 2015)
[4] Minor amendments to a number of IFRSs (IFRS 1 and IAS 28)
[5] This relates to the initial application of amendments to IFRS 1 and IAS 28.
[6] Minor amendments to a number of IFRSs (IFRS 3, IFRS 11, IAS 12, and IAS 23)

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. The MAN Group will apply the modified retrospective transition method, under which the cumulative effects of the change are to be reported in the opening balance sheet for 2018.

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 measured either "at amortized cost," "at fair value through other comprehensive income," or "at fair value through profit or loss." In the future, financial investments will always be accounted for at fair value, even if the investee is not a listed company. This is expected to result in an increase in fair values in the single-digit millions of euros. 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 intends to exercise this option for its significant investments. The increase in fair values resulting from the initial application of IFRS 9 will therefore be recognized in accumulated other comprehensive income. 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 largely unchanged as against the current accounting requirements under IAS 39.

The basis for measuring impairment losses and recognizing loss allowances will switch from an incurred loss model to an expected credit loss model. The MAN Group will apply 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 will increase the loss allowance by an amount in the low double-digit millions on initial application. These amounts will be recognized directly in retained earnings. The increase in the loss allowance is 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. IFRS 9 will have a particularly significant impact on the entity's reclassification practice. The greater the exchange rate movements, the higher the offsetting effect hedging transactions have on operating profit. This will continue to apply under IFRS 9, so we do not expect operating profit from hedge accounting to change significantly as against current accounting. Since the new requirements for hedging using currency forwards must be applied prospectively, there will be no initial application effect resulting from these hedges.

This will also result in far more extensive disclosures.

IFRS 15 — Revenue from Contracts with Customers

IFRS 15 updates the accounting rules for revenue recognition. The MAN Group expects that revenue recognition for certain types of contracts will be delayed compared with the current recognition, in particular if the transaction price is spread across several performance obligations. This will result in adjustments to other provisions and other liabilities. Additionally, starting next year the reversal of provisions for customer rebates will no longer be recognized as other operating income but as sales revenue. We expect an overall reduction in sales revenue due to IFRS 15 in the low two-digit millions of euros.

There will also be changes in the balance sheet, as in the future the MAN Group will combine prepayments received and other revenue-related deferral items under IFRS 15 and present them in other liabilities. As a result of the recognition of prepayments that are due but not yet paid by customers in the form of cash, the balance sheet will grow in the low hundreds of millions of euros. In addition, much more comprehensive disclosures will be required.

The MAN Group will apply the modified retrospective transition method, under which the cumulative effects of the change are to be reported in the opening balance sheet for 2018. We presume that the effects on retained earnings will be in the single-digit millions of euros.

IFRS 16 — Leases

IFRS 16 changes the accounting requirements for leases. 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 for all leases in their balance sheet in the future. The only exceptions are 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. As a result, the new lessee accounting tends to increase noncurrent assets and noncurrent liabilities. It is expected to have a positive impact on operating profit and a negative impact on the financial result in the income statement. In addition, much more comprehensive disclosures will be required. 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.

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 or within a longer operating cycle. 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 Volkswagen Truck & Bus GmbH and MAN SE, the accompanying consolidated financial statements have been prepared following appropriation of net profit by Volkswagen Truck & Bus GmbH.

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 the products or goods have been delivered and the risk has passed on to the customer. It must be possible to measure the amount of revenue reliably, and collectability of the receivable must be probable. Discounts, customer rebates, and other sales allowances are deducted from revenue.

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. Construction contracts are recognized using the percentage of completion (PoC) method. For more information on determining the stage of completion, please refer to note (4 i).

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 recognized as revenue on a straight-line basis over the period until the return of the item sold, and the transaction is accounted for as an operating lease.

If the sale of products includes a certain amount for future services (multiple-element arrangements), the revenue attributable to these services is deferred and recognized in the income statement over the term of the agreement as the service is rendered.

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 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 eight 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 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.

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 (10 to 50 years), leasehold improvements (5 to 33 years), production plant and machinery (3 to 33 years), and other equipment, operating and office equipment (3 to 25 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 5 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 are 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.

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. Selling 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) Construction contracts

Construction contracts are recognized using the percentage of completion (PoC) method, under which sales revenue and cost of sales are recognized by reference to the stage of completion at the end of the reporting period, based on the contract revenue agreed with the customer and the expected contract costs. As a rule, the stage of completion is determined as the proportion that contract costs incurred by the end of the reporting period bear to the estimated total contract costs (cost-to-cost method). In certain cases, in particular those involving innovative, complex contracts, the stage of completion is measured using contractually agreed milestones (milestone method). If the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only in the amount of the contract costs incurred to date (zero-profit method). In the balance sheet, contract components whose revenue is recognized using the percentage of completion method are reported as trade receivables, net of prepayments received.

Expected losses from construction contracts are recognized immediately in full as expenses by recognizing impairment losses on recognized contract assets, and additionally by recognizing provisions for amounts in excess of the impairment losses.

j) 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, in particular, 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 IAS 39. 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.

IAS 39 classifies financial assets into the following categories:

- loans and receivables;
- available-for-sale financial assets;
- financial assets at fair value through profit or loss;
- held-to-maturity financial assets.

Financial liabilities are classified into the following categories:

- financial liabilities measured at amortized cost and
- financial liabilities at fair value through profit or loss.

As a general principle, the MAN Group does not hold any financial assets in the “held-to-maturity financial assets” category. Equally, the MAN Group does not apply the fair value option.

Subsidiaries or associates and joint ventures that are not consolidated due to insignificance do not fall within the scope of IAS 39 and IFRS 7.

Nonderivative financial instruments are initially recognized at fair value. On initial measurement, fair value generally corresponds to the transaction price, i.e., the consideration given or received. Following initial recognition, nonderivative financial instruments are either measured at fair value or at amortized cost, depending on the category to which they are assigned.

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;
- minus any writedown for impairment or uncollectability;
- 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.

Fair value generally corresponds to the market or quoted market price. If no active market exists, fair value is determined using other observable inputs as far as possible. If no observable inputs are available, fair value is determined using valuation techniques, such as by discounting the future cash flows at the market interest rate, or by using recognized option pricing models.

The allocation of individual balance sheet items to the two valuation approaches is presented in note (34).

Loans and receivables are generally carried at amortized cost. In the MAN Group, this category primarily comprises customer receivables, other financial assets (except for derivatives contained in that line item), and cash and cash equivalents. The future cash flows associated with non- or low-interest-bearing receivables with a remaining term of more than twelve months are discounted using a market rate of interest.

Default risk on financial assets classified as loans and receivables is accounted for by recognizing specific valuation allowances and portfolio-based valuation allowances.

More specifically, significant individual receivables are to be tested for objective evidence of individual impairment. A potential impairment is assumed in the case of a number of situations such as 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. If an individual impairment is determined, specific valuation allowances are recognized in accordance with Group-wide standards in the amount of the incurred loss.

Portfolio-based valuation allowances are recognized by grouping together insignificant receivables and significant individual receivables for which there is no indication of impairment into homogeneous portfolios. As long as no definite information is available as to which receivables are in default, average historical default probabilities for the portfolio concerned are used to calculate the amount of the valuation allowances.

Valuation allowances on receivables are generally recognized in separate allowance accounts. They are derecognized at the same time as the corresponding receivable for which the valuation allowance has been recognized.

Financial instruments that fall within the scope of IAS 39, that are not held to maturity or for speculative purposes, and that do not belong to any of the other categories described above are classified as available-for-sale financial assets. Available-for-sale financial assets are measured at fair value. The difference between cost and fair value is recognized in other comprehensive income and reported as accumulated other comprehensive income, net of deferred taxes.

Financial investments are also classified as available-for-sale financial assets. If there is no active market for these financial investments and fair values cannot be measured without undue effort, they are recognized at cost.

An impairment loss is recognized on available-for-sale financial assets if there is objective evidence of permanent impairment. For example, a prolonged (more than 10% of the average market price over a year) or significant (more than 20%) decline in the fair value of an equity instrument below its cost is considered evidence of impairment.

Financial liabilities other than derivatives are subsequently measured at amortized cost.

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.

k) Derivatives

Derivatives such as swaps, futures, and options are used in the MAN Group to hedge foreign currency, interest rate, and commodity price risks. Derivatives are initially recognized and subsequently measured at each following reporting date at fair value, and presented in other financial assets and liabilities. They are generally recognized at the trade date.

In the case of derivatives with quoted market prices, fair value is the positive or negative market price. If no quoted market prices are available, fair value is estimated on the basis of the conditions obtaining at the end of the reporting period, such as interest rates or exchange rates, and using recognized valuation techniques, such as discounted cash flow models or option pricing models.

The presentation of measurement and settlement effects in the income statement depends on whether the derivative meets the IAS 39 hedge accounting criteria.

A condition for the application of hedge accounting is that the clear hedging relationship between the hedged item and the hedging instrument has been documented and that the hedge has been proven to be effective. If these criteria are met, MAN generally designates and documents the hedging relationship as from that date as a cash flow hedge. No fair value hedges exist.

A cash flow hedge is a hedge of the MAN Group's exposure to variability in the cash flows associated with recognized assets and liabilities, unrecognized firm commitments, and highly probable forecast transactions. In a cash flow hedge, the effective portion of the change in the fair value of the derivative is initially recognized in other comprehensive income and reported in accumulated other comprehensive income, net of deferred taxes. As soon as the hedged item affects profit or loss, the gains or losses recognized in other comprehensive income are reclassified as other operating income or expenses, respectively. The ineffective portion of the change in fair value is recognized immediately in profit or loss. If the hedging instrument expires, or is sold, terminated, or exercised, or if the hedging relationship no longer exists, but the forecast transaction is still expected to occur, the unrealized gains or losses accumulated from the hedging instrument until that point in time remain in other comprehensive income and are recognized in profit or loss as described above when the hedged forecast transaction affects the income statement. If the originally hedged forecast transaction is no longer expected to occur, the unrealized cumulative gains or losses recognized in other comprehensive income until that point are also recognized in profit or loss.

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, Wolfsburg. 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 financial statements, 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 expense.

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) 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 other operating income.

Provisions for warranties are recognized at the time of sale of the products in question or when the corresponding services are rendered. 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 other 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.

o) 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.

p) 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 are adjusted accordingly.

q) Prior-period information

To enhance comparability, certain amounts relating to the previous fiscal year have been adjusted to conform to the current presentation.

r) 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 buyback rights are exercised and on the development of resale prices, the actual expenses incurred may differ from the expected risks.

Certain Group companies, especially within the MAN Diesel & Turbo division, account for some of their construction contracts using the percentage of completion method, under which revenue is recognized by reference to the stage of completion. Application of this method depends critically on a careful analysis of the stage of completion. Depending on the methodology applied to measure the stage of completion, the key estimation parameters include contract revenue, total contract costs, costs to complete the contract, contract risks, and other estimates. Management at the operating units continuously reviews the estimates relating to such construction contracts and adjusts them if required.

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. Potential liabilities from projects in the Power Engineering business area must, to a large extent, be estimated. Such estimates may change in line with new information and increasing project progress. 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 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

MAN SE's annual reports for fiscal years 2009 to 2016 contain detailed information in connection with the disposal of the shares in Ferrostaal GmbH, Essen (Ferrostaal), formerly Ferrostaal AG.

The net profit relating to Ferrostaal is as follows:

€ million	2017	2016
Income and expenses	25	–
Income taxes	– 7	–
	17	**–**

It results from subsequent purchase price adjustments for prior-period taxes of the 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. There were no other cash flows from discontinued operations in the reporting period or in the prior-year period.

Income statement disclosures

6 Sales revenue

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

Group sales revenue

€ million	2017	2016
Commercial Vehicles	11,085	10,002
Power Engineering	3,283	3,593
Others	– 26	– 32
	14,342	**13,564**

The sales revenue of the Commercial Vehicles business area primarily contains revenue from the sale of trucks, heavy-duty special-purpose vehicles, and city and intercity buses and coaches, and from the provision of services offered by MAN Truck & Bus and MAN Latin America.

The Power Engineering business area mainly generates revenue from the sale of marine diesel and stationary engines, turbomachinery, gear units, and testing systems, and from the provision of product-related services. This includes revenue from construction contracts of €788 million (previous year: €1,048 million).

7 Other operating income

€ million	2017	2016
Income from reversal of provisions and accruals	287	236
Income from foreign exchange gains	152	155
Income from foreign currency hedging derivatives	46	69
Income from cost allocations	39	28
Gains on disposal of noncurrent assets and the reversal of impairment losses	17	17
Income from reversal of valuation allowances on receivables and other assets	20	13
Rental and lease income	8	9
Miscellaneous other income	85	66
	655	**592**

Restructuring measures were launched in the MAN Group in previous years. Provisions for restructurings were reversed in the amount of €91 million in 2017 as the restructuring measures were continued. €50 million of this amount is attributable to MAN Truck & Bus and €41 million to MAN Diesel & Turbo.

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 foreign currency hedging derivatives is attributable to the realization of effective cash flow hedges, with offsetting effects from the hedged items in sales revenue and cost of sales.

Miscellaneous other income includes government grants of €14 million (previous year: €12 million) for expenses incurred.

8 Other operating expenses

€ million	2017	2016
Foreign exchange losses	155	161
Valuation allowances on receivables and other assets	28	42
Losses from foreign currency hedging derivatives	18	26
Losses on disposal of noncurrent assets	5	13
Miscellaneous other expenses	158	355
	364	**597**

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

Losses from foreign currency hedging derivatives are attributable to the realization of effective cash flow hedges, with offsetting effects from the hedged items in sales revenue and cost of sales.

Miscellaneous other expenses include expenses for litigation risks and other items.

Other operating expenses were impacted in fiscal 2016 by restructuring expenses of €155 million at MAN Diesel & Turbo and €58 million at MAN Latin America, which are mainly reported under miscellaneous other expenses.

9 Net interest expense

€ million	2017	2016
Interest and similar income	53	38
Interest and similar expenses	– 163	– 162
Net interest on the net liability for pensions and other post-employment benefits	– 11	– 11
Unwinding of discount and effect of change in discount rate on liabilities and other provisions	– 6	– 18
Net interest expense	**– 127**	**– 153**

Net interest expense (in previous years: finance costs) mainly contains interest expense for financial liabilities. Starting in fiscal year 2017, the interest income reported in the "Other financial result" item in previous years has been reported in net interest expense. Realized expenses from currency translation are no longer contained in this amount, but are rather reported separately in the "Other financial result" item. Prior-period amounts were adjusted accordingly.

10 Other financial result

€ million	2017	2016
Other income from equity investments	5	5
Other expenses from equity investments	0	– 2
Realized income from currency translation	9	2
Realized expenses from currency translation	– 1	– 11
Gains/losses from remeasurement and impairment of financial instruments	1	70
Gains/losses from changes in the fair value of derivatives not included in hedge accounting	9	– 84
Other financial result	**21**	**– 21**

Both the change in gains/losses from remeasurement and impairment of financial instruments and the gains/losses from changes in the fair value of derivatives not included in hedge accounting are attributable primarily to exchange rate movements. The amounts for the 2016 reporting period were affected by the performance of the Brazilian real.

Starting in fiscal year 2017, the realized income from currency translation reported in the "Other interest and similar income" item in previous years has been reported separately. Prior-period amounts were reclassified accordingly.

11 Income taxes

The reported tax expense is broken down as follows:

€ million	2017	2016
Current tax income (–)/expense (+), Germany	– 44	96
Current tax expense, other countries	134	112
Current tax expense (+)/income (–)	**90**	**208**
of which prior-period expense (+)/income (–)	19	33
Current income taxes	**90**	**208**
Deferred tax expense (+)/income (–), Germany	99	– 89
Deferred tax expense (+)/income (–), other countries	40	– 63
Deferred tax expense (+)/income (–)	**139**	**– 152**
Income taxes	**229**	**55**

The tax expense expected for fiscal 2017 is based on the application of the German tax rate applicable for the 2017 assessment period of 29.9% (previous year: 29.9%) to earnings before tax. This tax rate includes municipal trade tax (14.05%), 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 effective since January 1, 2014, with Volkswagen Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG. The measurement of deferred taxes in the German consolidated tax group is based on a tax rate of 29.9% (previous year: 29.9%). The income tax rates applied for foreign companies vary between 0 and 40.0%. As in the previous year, tax rate changes outside Germany did not materially affect the total tax expense in fiscal 2017. The realization of tax loss carryforwards from previous years reduced current income taxes in fiscal 2017 by €7 million (previous year: €7 million).

Deferred tax assets of €1 million (previous year: €0 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 €32 million (previous year: €97 million) for their local taxes. A deferred tax asset of €20 million (previous year: €56 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 or written down as of December 31, 2017, for existing tax loss carryforwards of €1,032 million (previous year: €760 million) and temporary differences of €0 million (previous year: €4 million) due to the low probability of such deferred tax assets being recoverable. Tax loss carryforwards of €5 million (previous year: €24 million) for which no deferred tax assets have been recognized can only be carried forward for a limited period. The related expiration dates refer to the period up to 2022. The deferred tax expense from the write-down of a deferred tax asset is €60 million (previous year: €7 million). The deferred tax income from the reversal of a write-down of a deferred tax asset is €1 million (previous year: €21 million).

There are temporary differences in connection with shares in subsidiaries for which no deferred taxes of €43 million (previous year: €39 million) were recognized.

Reconciliation of expected to effective income tax:

€ million	2017	2016
Profit before tax	533	49
Expected income tax expense (tax rate: 29.9%; previous year: 29.9%)	**159**	**15**
Reconciliation:		
Effect of different tax rates outside Germany	– 37	– 40
Proportion of taxation relating to:		
Tax-exempt income	– 51	– 16
Expenses not deductible for tax purposes	10	17
Effects of loss carryforwards and tax credits	119	33
Prior-period tax expense	19	33
Effect of tax rate changes	0	5
Nondeductible withholding tax	2	4
Other tax changes	7	5
Effective income tax expense (+)/income (–)	**229**	**55**
Effective tax rate in %	43.0	113.6

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

	Deferred tax assets		Deferred tax liabilities	
€ million	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Intangible assets	0	1	522	503
Property, plant, and equipment, and assets leased out	23	27	782	741
Noncurrent financial assets	2	1	28	24
Inventories	73	63	19	21
Receivables and other assets	12	26	94	81
Pensions and other post-employment benefits	254	247	1	1
Liabilities and other provisions	1,140	1,161	20	15
Valuation allowances on deferred tax assets from temporary differences	–	– 1	–	–
Temporary differences, net of valuation allowances	1,502	1,526	1,466	1,385
Tax loss carryforwards, net of valuation allowances	32	97	–	–
Tax credits, net of valuation allowances	18	14	–	–
Figure before consolidation and offsetting	**1,553**	**1,637**	**1,466**	**1,385**
of which noncurrent	962	1,115	1,348	1,275
Offset	– 1,156	– 1,263	– 1,156	– 1,263
Consolidation	178	167	20	21
Amount recognized in balance sheet	**575**	**541**	**329**	**143**

12 Earnings per share

€ million (unless otherwise stated)	2017	2016
Profit/loss after tax attributable to shareholders of MAN SE	311	– 18
of which income/loss from discontinued operations, net of tax	17	–
Profit/loss from continuing operations attributable to shareholders of MAN SE	**294**	**– 18**
Number of shares outstanding (weighted average, million)	147.0	147.0
Earnings per share from continuing operations in €	**2.00**	**– 0.12**
Earnings per share from discontinued operations in €	0.12	–
Total	**2.12**	**– 0.12**

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 2017 as in the previous year.

Earnings per share from discontinued operations were €0.12 (previous year: €0.00).

13 Other income statement disclosures

Personnel expenses

€ million	2017	2016
Wages and salaries	3,036	3,140
Social security contributions, retirement and other employee benefit expenses	650	606
	3,685	**3,746**

Please refer to note (26) for details of the retirement and other employee benefit expenses.

Average annual headcount

	2017	2016
Performance-related wage-earners	25,617	25,622
Salaried staff	25,439	25,546
	51,056	**51,168**
of which in the passive phase of partial retirement	720	672
Vocational trainees	2,912	2,967
	53,968	**54,135**

Expenses of €180 million (previous year: €167 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 €48 million (previous year: €50 million) for contingent lease payments were also incurred. Payments for subleases amounted to €2 million (previous year: €2 million).

14 Total remuneration of the auditors

The following table shows the fees charged for the work performed by the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich (PwC), as well as by companies in the international PwC network:

€ million	2017	2016[1]
Audits	4.3	4.0
Other assurance services	0.4	0.3
Tax advisory services	0.3	0.5
Other services	0.1	1.1
	5.1	**5.9**

[1] Prior-year figures were adjusted.

The fees charged for work performed by the auditor, PwC, and its affiliated German companies totaled €2.4 million in fiscal 2017 (previous year: €3.5 million). Of this amount, €2.2 million (previous year: €2.2 million) is attributable to audits and €0.2 million (previous year: €0.3 million) to other assurance services. A small amount of other services were used in fiscal year 2017, by contrast to the previous year (€1.0 million). As in the previous year, no tax advisory services were provided by PwC or its affiliated German companies.

Balance sheet disclosures

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, 2016	731	1,737	782	3,249
Accumulated depreciation and impairment losses	– 473	– 789	– 78	– 1,340
Balance at January 1, 2016	**258**	**948**	**704**	**1,909**
Additions	20	276	–	295
Transfers	4	–	–	4
Disposals	– 1	– 2	–	– 3
Amortization	– 41	– 99	–	– 141
Impairment losses	– 1	– 1	–	– 2
Currency translation differences	46	45	76	167
Balance at December 31, 2016	**284**	**1,165**	**779**	**2,229**
Gross carrying amount at December 31, 2016	861	2,060	857	3,779
Accumulated amortization and impairment losses	– 577	– 895	– 78	– 1,550
Balance at January 1, 2017	**284**	**1,165**	**779**	**2,229**
Change in consolidated Group structure/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

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.

Research and development costs

€ million	2017	2016
Research and noncapitalized development costs	642	605
Amortization of and impairment losses on capitalized development costs	98	101
Research and development costs recognized in the income statement	**740**	**706**

Capitalized development costs for in-process development projects that are not subject to amortization amounted to €806 million as of December 31, 2017 (previous year: €773 million).

Analysis of goodwill

€ million	12/31/2017	12/31/2016
MAN Truck & Bus	230	243
MAN Latin America	395	444
MAN Diesel & Turbo	106	92
	731	**779**

Goodwill is allocated to the divisions as shown above.

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 2017 (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	2017	2016
MAN Truck & Bus	6.8%	6.5%
MAN Latin America	10.6%	10.9%
MAN Diesel & Turbo	8.0%	7.7%

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 2017 and 2016. 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	Production plant and machinery	Other plant, operating, and office equipment	Prepayments and construction in progress	Investment property	Property, plant, and equipment
Gross carrying amount at January 1, 2016	1,942	2,175	1,595	269	97	6,078
Accumulated depreciation and impairment losses	– 992	– 1,527	– 1,190	– 3	– 80	– 3,792
Balance at January 1, 2016	**949**	**649**	**405**	**266**	**17**	**2,286**
Changes in consolidated Group structure/acquisitions	0	2	0	–	–	2
Additions	43	105	116	295	–	559
Transfers	32	73	22	– 131	– 2	– 6
Disposals	– 2	– 10	– 8	– 4	0	– 24
Depreciation	– 53	– 123	– 129	–	– 1	– 306
Impairment losses	–	– 1	–	– 1	–	– 1
Currency translation differences	8	3	10	14	–	35
Balance at December 31, 2016	**978**	**698**	**415**	**440**	**14**	**2,545**
Gross carrying amount at December 31, 2016	2,018	2,290	1,654	444	83	6,488
Accumulated amortization 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 consolidated Group structure/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 depreciation and impairment losses	– 1,090	– 1,578	– 1,283	– 3	– 38	– 3,992

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

The carrying amount of investment property amounted to €11 million as of December 31, 2017 (previous year: €14 million), compared with a fair value of €47 million (previous year: €56 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, 2017, 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.

The quoted market value of the shares in Sinotruk amounted to €648 million as of December 31, 2017 (previous year: €466 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	2017 [1]	2016 [2]
Noncurrent assets	2,086	2,075
Current assets	5,449	4,034
Total assets	**7,534**	**6,108**
Noncurrent liabilities and provisions	55	123
Current liabilities and provisions	4,420	3,029
Total liabilities and provisions	**4,475**	**3,152**
Net assets	**3,060**	**2,956**

[1] Amounts shown relate to the reporting period ended June 30, 2017.
[2] Amounts shown relate to the reporting period ended June 30, 2016.

Statement of comprehensive income

€ million	2017 [1]	2016 [2]
Sales revenue	5,961	4,116
Profit after tax from continuing operations	260	46
Other comprehensive income	13	11
Total comprehensive income	**272**	**57**
Dividends received	6	2

[1] Amounts shown relate to the reporting period from July 1, 2016, to June 30, 2017.
[2] Amounts shown relate to the reporting period from July 1, 2015, to June 30, 2016.

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

€ million	2017	2016
Net assets	3,060	2,956
Noncontrolling interests	327	317
Net assets attributable to shareholders	2,733	2,639
Interest held by MAN in % [1]	25	25
Net assets attributable to the MAN Group	**683**	**660**
Impairment losses	– 190	– 190
Goodwill, effect of purchase price allocation, currency translation differences, and other changes	– 9	– 36
Carrying amount at December 31	**484**	**434**

[1] 25% plus one share

Other associates

The carrying amounts of other associates amounted to €38 million as of December 31, 2017 (December 31, 2016: €29 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	2017 [1]	2016 [2]
Profit after tax from continuing operations	23	7
Other comprehensive income	– 2	– 3
Total comprehensive income	**21**	**4**

[1] Amounts shown relate to the reporting period from October 1, 2016, to September 30, 2017.
[2] Amounts shown relate to the reporting period from October 1, 2015, to September 30, 2016.

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. This is classified as an available-for-sale financial asset.

19 Assets leased out

€ million	2017	2016
Gross carrying amount at January 1	4,688	4,346
Accumulated depreciation	–1,449	–1,397
Balance at January 1	**3,239**	**2,949**
Additions	1,403	1,360
Disposals	–537	–481
Depreciation	–610	–562
Currency translation differences and other changes	9	–27
Balance at December 31	**3,504**	**3,239**
Gross carrying amount at December 31	5,028	4,688
Accumulated depreciation	–1,525	–1,449

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

€ million	2018	2019–2022	> 2022	Total
Lease payments	9	22	4	34

€ million	2017	2018–2021	> 2021	Total
Lease payments	9	25	6	40

20 Inventories

€ million	12/31/2017	12/31/2016
Raw materials, consumables, and supplies	526	456
Work in progress	988	923
Finished goods and purchased merchandise	1,808	1,760
Prepayments	76	106
	3,397	**3,246**

Inventories in the amount of €11,506 million (previous year: €10,828 million) were recognized under cost of sales at the same time as the sales revenue. The impairment loss amounted to €58 million (previous year: €43 million). The reduction in expenses from the reversal of impairment losses recognized on inventories amounted to €5 million (previous year: €19 million).

21 Trade receivables

€ million	12/31/2017	12/31/2016
Customer receivables	2,111	1,986
Receivables from investees	60	52
	2,171	**2,038**

€16 million of the trade receivables (previous year: €13 million) is due in more than one year.

Trade receivables include PoC receivables recognized using the percentage of completion method, which are calculated as follows:

€ million	12/31/2017	12/31/2016
Contract costs and proportionate contract profit/loss of construction contracts	801	813
Exchange rate effects	– 3	2
PoC receivables, gross	**799**	**815**
Prepayments received	– 590	– 622
PoC receivables	**208**	**193**

Other prepayments of €258 million (previous year: €222 million) received on construction contracts are recognized as liabilities.

Orders and part-orders billed to customers are reported in customer receivables.

22 Other financial assets

€ million	12/31/2017	12/31/2016
Positive fair value of derivatives	55	62
Receivables from loans	31	329
Receivables from the profit and loss transfer agreement and tax allocation procedure with Volkswagen Truck & Bus GmbH	–	67
Other financial assets	84	69
	171	**527**

Other financial assets are reported as follows:

€ million	12/31/2017	12/31/2016
Other noncurrent financial assets	34	327
Other current financial assets	136	200

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

Receivables from loans include €28 million (previous year: €325 million) from MAN Group and Volkswagen Group companies.

23 Other receivables

€ million	12/31/2017	12/31/2016
Recoverable income taxes	659	582
Miscellaneous receivables	248	239
	907	**821**

Other receivables are reported in the following balance sheet items:

€ million	12/31/2017	12/31/2016
Other noncurrent receivables	563	533
Other current receivables	344	289

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 Volkswagen Truck & Bus GmbH and MAN SE on April 26, 2013, which came into effect on its entry in the commercial register on July 16, 2013, the dividend right outlined above is supplemented by means of a compensatory or guaranteed dividend payable to common and preferred shareholders within the meaning of section 304 of the *Aktiengesetz* (AktG — German Stock Corporation Act).

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

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

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

b) Significant shareholdings in MAN SE

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

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

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 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 €193 million (previous year: net loss of €99 million) was transferred to Volkswagen Truck & Bus GmbH 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 no longer distributes dividends and has not done so since fiscal year 2014. Volkswagen Truck & Bus GmbH will make the contractually defined annual cash compensation payment (€3.07 per share) to each MAN free float shareholder.

d) Accumulated other comprehensive income

€ million	12/31/2017	12/31/2016
Currency translation differences	– 436	– 228
Fair value measurement of marketable securities and financial investments	1,979	1,644
Fair value of derivatives	22	29
Pension plan remeasurements	– 763	– 827
Accumulated other comprehensive income from equity-method investments	– 29	– 11
Deferred taxes	171	187
Accumulated other comprehensive income	**945**	**795**

Of the deferred taxes of €171 million (previous year: €187 million), €207 million (previous year: €220 million) is attributable to remeasurements of pension plans, €–8 million (previous year: €–10 million) is attributable to the measurement of derivatives, and €–28 million (previous year: €–23 million) to the fair value measurement of marketable securities and financial investments.

The increase in reserves for pension plan remeasurements resulted primarily from the increase in the value of plan assets. The decline in the reserves for currency translation differences as well as the reserves for fair value measurement of derivatives is largely due to exchange rate movements. The amounts for fiscal 2017 are affected by the performance of the Brazilian real.

Other comprehensive income for the period, including noncontrolling interests, changed as follows:

	12/31/2017			12/31/2016		
€ million	before tax	tax effect	after tax	before tax	tax effect	after tax
Items that will not be reclassified to profit or loss						
Pension plan remeasurements	66	– 12	53	– 190	56	– 134
Other comprehensive income for the period from equity-method investments	– 2	–	– 2	– 1	–	– 1
Items that will be reclassified subsequently to profit or loss						
Currency translation differences	– 209	–	– 209	163	–	163
Unrealized gains and losses from the fair value measurement of marketable securities and financial investments	335	– 5	330	129	– 2	127
Fair value measurement of marketable securities and financial investments	335	– 5	330	129	– 2	127
Unrealized gains and losses from the fair value measurement of derivatives	21	– 3	19	106	– 28	78
Reclassification of realized gains and losses to profit or loss	– 27	4	– 23	– 43	7	– 36
Fair value of derivatives	– 6	2	– 4	63	– 21	41
Unrealized other comprehensive income for the period from equity-method investments	– 17	–	– 17	– 2	–	– 2
Other comprehensive income for the period from equity-method investments	– 17	–	– 17	– 2	–	– 2
Other comprehensive income	**167**	**– 16**	**151**	**163**	**33**	**195**

e) Noncontrolling interests

The noncontrolling interests are mainly attributable to Renk Aktiengesellschaft, Augsburg, in which MAN holds a 76% interest. The following table presents summarized financial information for Renk.

€ million	2017	2016
Interest attributable to noncontrolling interests	**24**	**24**
Noncurrent assets	215	214
Current assets	485	494
Total assets at December 31	**700**	**708**
Noncurrent liabilities and provisions	94	26
Current liabilities and provisions	184	292
Total liabilities and provisions at December 31	**278**	**318**
Net assets	**422**	**390**
Carrying amount attributable to noncontrolling interests	101	94
Sales revenue	469	496
Profit after tax	43	44
Other comprehensive income	4	0
Total comprehensive income	**47**	**44**
Net income attributable to noncontrolling interests	10	11
Other comprehensive income attributable to noncontrolling interests	1	0
Dividends allocated to noncontrolling interests	3	3
Net cash provided by operating activities	25	57
Net cash used in/provided by investing activities	– 24	55
Net cash used in financing activities	– 15	– 15
Net change in cash and cash equivalents	**– 15**	**97**

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	12/31/2017	12/31/2016
MAN Group annual average invested capital	6,479	5,943
Operating profit	566	204
Operating profit after tax	396	143
ROI in %	6.1	2.4

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	12/31/2017	12/31/2016
Bonds	–	750
Liabilities to banks	983	883
Liabilities to Volkswagen AG	1,950	1,250
Loans and other liabilities	168	112
	3,101	**2,995**

Financial liabilities are reported in the following balance sheet items:

€ million	12/31/2017	12/31/2016
Noncurrent financial liabilities	1,490	421
Current financial liabilities	1,611	2,574

Liabilities to banks contain the utilization of committed credit lines of €758 million (previous year: €812 million) and uncommitted credit lines of €225 million (previous year: €71 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 €213 million in 2017 (previous year: €206 million). The following amounts were recognized in the balance sheet for defined benefit obligations:

€ million	2017	2016
Present value of funded obligations	2,997	3,007
Fair value of plan assets	– 2,538	– 2,512
Funded status at December 31	**460**	**495**
Present value of unfunded obligations	128	127
Amount not recognized as an asset because of the ceiling in IAS 19	1	–
Carrying amounts at December 31	**589**	**623**
of which pension provisions	590	624
of which other receivables	– 2	– 1

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 are 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 successively 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, France, India) 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]	
%	2017	2016	2017	2016
Discount rate at December 31	1.60	1.60	1.98	2.11
Payroll trend	3.60	3.20	1.11	2.50
Pension trend	1.50	1.50	1.22	1.28
Employee turnover rate	4.39	4.42	3.55	4.03

[1] Weighted average rates

The biometric parameters are based on current country-specific mortality tables that are adjusted in Germany to reflect past experience.

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	2017	2016
Net liability recognized in the balance sheet at January 1	623	492
Current service cost	81	82
Net interest expense	11	11
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	19	4
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	12	297
Actuarial gains (–)/losses (+) arising from experience adjustments	13	– 10
Return on plan assets not included in interest income	– 101	– 87
Change in amount not recognized as an asset because of the ceiling in IAS 19	1	– 1
Employer contributions to plan assets	– 37	– 114
Employee contributions to plan assets	8	7
Pension payments from company assets	– 36	– 28
Past service cost (including plan curtailments)	0	– 32
Other changes	0	3
Currency translation differences from foreign plans	– 5	– 4
Net liability recognized in the balance sheet at December 31	**590**	**623**

The change in the present value of the defined benefit obligations is attributable to the following factors:

€ million	2017	2016
Present value of DBO at January 1	3,134	2,867
Current service cost	81	82
Interest cost	55	75
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	19	4
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	12	297
Actuarial gains (–)/losses (+) arising from experience adjustments	13	– 10
Employee contributions to plan assets	15	15
Pension payments from company assets	– 36	– 28
Pension payments from plan assets	– 109	– 99
Past service cost (including plan curtailments)	0	– 32
Changes in consolidated Group structure	– 1	–
Other changes	0	6
Currency translation differences from foreign plans	– 58	– 44
Present value of DBO at December 31	**3,125**	**3,134**

Changes in the relevant actuarial assumptions would have had the following effects on the present value of the defined benefit obligation:

		12/31/2017		**12/31/2016**	
Present value of DBO if		**€ million**	**%**	**€ million**	**%**
	is 0.5 percentage points higher	2,952	– 5.56	2,955	– 5.73
Discount rate	is 0.5 percentage points lower	3,321	6.27	3,337	6.48
	is 0.5 percentage points higher	3,137	0.37	3,146	0.38
Payroll trend	is 0.5 percentage points lower	3,115	– 0.33	3,124	– 0.33
	is 0.5 percentage points higher	3,256	4.16	3,262	4.08
Pension trend	is 0.5 percentage points lower	3,006	– 3.84	3,016	– 3.76
Longevity	increases by 1 year	3,195	2.21	3,207	2.30

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 longevity, 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 unchanged at 12 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	2017	2016
Payments due within one year	139	141
Payments due in one to five years	522	508
Payments due after more than five years	2,464	2,486
Total	**3,125**	**3,134**

Changes in plan assets are shown in the following table:

€ million	2017	2016
Plan assets at January 1	2,512	2,376
Interest income on plan assets calculated using the discount rate	44	64
Return on plan assets not included in interest income	101	87
Employer contributions to plan assets	37	114
Employee contributions to plan assets	8	8
Pension payments from plan assets	– 109	– 99
Changes in consolidated Group structure	– 1	–
Other changes	–	2
Currency translation differences from foreign plans	– 53	– 40
Plan assets at December 31	**2,538**	**2,512**

Employer contributions to plan assets are expected to amount to €66 million in the next annual reporting period (previous year: €65 million).

Plan assets are invested in the following asset classes:

€ million	12/31/2017 Quoted prices in active markets	12/31/2017 No quoted prices in active markets	12/31/2017 Total	12/31/2016 Quoted prices in active markets	12/31/2016 No quoted prices in active markets	12/31/2016 Total
Cash and cash equivalents	80	–	80	102	–	102
Equity instruments	82	–	82	89	–	89
Debt instruments	181	–	181	197	–	197
Direct investments in real estate	–	84	84	–	88	88
Equity funds	507	–	507	497	–	497
Bond funds	740	–	740	828	–	828
Real estate funds	79	–	79	52	–	52
Other funds	180	1	182	79	–	79
Other instruments	35	569	604	22	558	580
Fair value of plan assets	**1,884**	**654**	**2,538**	**1,866**	**645**	**2,512**

26% (previous year: 26%) of the plan assets are invested in German assets, 56% (previous year: 50%) in other European assets, and 18% (previous year: 24%) in assets in other regions.

27 Other provisions

€ million	As of 12/31/2016	Change in consolidated Group structure, currency translation	Utilization	Additions	Reversals	Interest unwinding and change in discount rate	As of 12/31/2017
Warranties	826	– 4	– 191	290	– 116	– 7	799
Outstanding costs	236	3	– 119	159	– 24	0	254
Obligations to employees	162	10	– 46	58	– 2	1	184
Litigation and legal risks	99	– 12	– 10	30	– 8	–	99
Restructurings	307	– 12	– 87	0	– 91	– 2	114
Miscellaneous provisions	347	– 28	– 120	163	– 43	0	319
	1,978	**– 43**	**– 574**	**700**	**– 284**	**– 8**	**1,770**

The following table provides an overview of other provisions by maturity:

€ million	12/31/2017		12/31/2016	
	Noncurrent	Current	Noncurrent	Current
Warranties	422	377	428	398
Outstanding costs	58	196	52	183
Obligations to employees	134	50	113	49
Litigation and legal risks	80	20	79	20
Restructurings	15	99	62	245
Miscellaneous provisions	24	295	37	310
	733	**1,036**	**772**	**1,206**

To increase transparency, the groups of other provisions presented in the statement of changes in provisions were broken down further; prior-period figures have been adjusted accordingly. Provisions for warranty obligations are recognized for statutory and 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, MAN Latin America, and MAN Diesel & Turbo launched in previous years. 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	12/31/2017	12/31/2016
Liabilities from buyback obligations	2,580	2,349
Negative fair value of derivatives	40	72
Interest payable	27	30
Liabilities from the profit and loss transfer agreement and tax allocation procedure with Volkswagen Truck & Bus GmbH	109	–
Miscellaneous other financial liabilities	95	87
	2,851	**2,537**

The liabilities from buyback obligations originate from sales of commercial vehicles accounted for as operating leases because of a buyback agreement.

Miscellaneous 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	12/31/2017	12/31/2016
Other noncurrent financial liabilities	1,741	1,602
Other current financial liabilities	1,110	935

29 Other liabilities

€ million	12/31/2017	12/31/2016
Deferred purchase price payments for assets leased out	1,640	1,561
Payroll liabilities	455	424
Miscellaneous other tax payables	393	379
Liabilities related to social security contributions	22	22
Miscellaneous other liabilities	143	69
	2,653	**2,455**

Other liabilities are reported in the following balance sheet items:

€ million	12/31/2017	12/31/2016
Other noncurrent liabilities	1,202	1,100
Other current liabilities	1,452	1,355

Other disclosures

30 Litigation/legal proceedings

In 2011, the European Commission launched an antitrust investigation into suspected antitrust violations in the commercial vehicles business between 1997 and 2011 and sent MAN and all other commercial vehicle manufacturers affected the statement of objections in November 2014, informing them of the claims brought forward against them. The European Commission imposed penalties on five European commercial vehicle manufacturers in its settlement decision dated July 19, 2016. MAN did not have to pay a fine because it notified the European Commission about the irregularities as a whistleblower. MAN has received antitrust damages claims from customers. As in any antitrust proceedings, further claims for damages may follow.

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.

Please refer to note (31) Contingent liabilities and commitments for information on tax proceedings involving MAN Latin America and the Brazilian tax authorities in connection with the acquisition of MAN Latin America.

31 Contingent liabilities and commitments

€ million	12/31/2017	12/31/2016
Contingent liabilities under guarantees	5	24
Other contingent liabilities	924	221

The contingent liabilities under guarantees relate mainly to guarantees issued for trade obligations of investees, former investees, and other companies. They include financial guarantees amounting to €1 million (previous year: €9 million). The year-on-year decrease is attributable to the planned reduction of guarantees for legacy transactions due to the expiry of the warranty periods.

Guarantees of €3 million (previous year: €4 million) are in place for the benefit of subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group. Guarantees for unconsolidated subsidiaries in the amount of €2 million (previous year: €8 million) also exist.

Other contingent liabilities relate mainly to contingent liabilities for potential charges from tax risks, which exist for MAN Latin America, in particular. It is not currently considered likely that a claim will be made against MAN Latin America in connection with these liabilities. In the tax proceedings involving MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities take a different position with regard to 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 will take 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 €730 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.

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 €1,897 million as of December 31, 2017 (previous year: €1,720 million), including €1,890 million (previous year: €1,703 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 obligations under operating leases are due as follows until expiration of the lease terms:

€ million	12/31/2017	12/31/2016
Due within one year	159	167
Due in one to five years	383	351
Due after more than five years	382	336
	924	**854**

Purchase commitments for items of property, plant, and equipment amounted to €461 million at the end of the reporting period (previous year: €413 million). Purchase commitments for intangible assets amounted to €5 million (previous year: €7 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 consolidated Group structure 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 noncash 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 Volkswagen Truck & Bus GmbH. 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.

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, Volkswagen Truck & Bus GmbH, capital transactions with noncontrolling interests, repayment of bonds, and the change in other financial liabilities.

Cash and cash equivalents presented in the statement of cash flows correspond to the “Cash and cash equivalents” item in the balance sheet and 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. 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.

In 2017, net cash provided by operating activities includes interest received amounting to €35 million (previous year: €59 million) and interest paid amounting to €168 million (previous year: €166 million). In addition, the share of profits and losses of equity-method investments includes dividends amounting to €6 million (previous year: €2 million). Dividends received from financial investments and other equity investments amounted to €4 million (previous year: €139 million).

Based on the current domination and profit and loss transfer agreement between Volkswagen Truck & Bus GmbH and MAN SE, the loss of €99 million for fiscal 2016 was absorbed in February 2017 (previous year: profit of €513 million transferred for fiscal 2015).

The following table shows the changes in financial assets and liabilities used in financing activities between the beginning and end of fiscal year 2017.

€ million	Balance at January 1, 2017	Changes affecting cash flows	Noncash transactions	Balance at December 31, 2017
Bonds	750	– 750	0	–
Other financial liabilities	2,245	927	– 70	3,101
Financial liabilities	**2,995**	**177**	**– 70**	**3,101**
Derivatives associated with financing activities	33	– 10	– 18	5
Financial assets and liabilities in financing activities	**3,028**	**167**	**– 88**	**3,106**

The noncash changes relate mainly to currency effects from the depreciation of the Brazilian real against the euro.

34 Additional disclosures on financial instruments

The following section contains additional disclosures on the significance of financial instruments and on individual balance sheet and income statement line items relating to financial instruments.

The following table shows 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, as well as the allocation of the balance sheet items to the measurement categories.

	Measured at fair value						
	Recognized in other comprehensive income [1]	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
€ million	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

€ million	Measured at fair value: Recognized in other comprehensive income[1] Carrying amount	Measured at fair value: Through profit or loss[2] Carrying amount	Measured at (amortized) cost[3] Carrying amount	Measured at (amortized) cost[3] Fair value	Derivatives included in hedging relationships[4] Carrying amount	Not within the scope of IFRS 7 Carrying amount	Balance sheet item at 12/31/2016
Noncurrent assets							
Equity-method investments	–	–	–	–	–	463	463
Other equity investments	2,837	–	5	–	–	55	2,897
Other financial assets	–	2	306	306	19	–	327
Current assets							
Trade receivables	–	–	2,038	2,038	–	–	2,038
Other financial assets	–	16	158	158	26	–	200
Cash and cash equivalents	–	–	796	796	–	–	796
Noncurrent liabilities							
Financial liabilities	–	–	421	421	–	–	421
Other financial liabilities	–	2	1,597	1,597	3	–	1,602
Current liabilities							
Financial liabilities	–	–	2,574	2,578	–	–	2,574
Trade payables	–	–	1,914	1,914	–	–	1,914
Other financial liabilities	–	55	869	869	12	–	935

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

The cumulative carrying amounts of the financial instruments classified by the IAS 39 measurement category are as follows:

IAS 39 measurement category € million	12/31/2017 Total assets	12/31/2017 Total equity and liabilities	12/31/2016 Total assets	12/31/2016 Total equity and liabilities
Available-for-sale financial assets	3,177	–	2,842	–
Financial instruments measured at fair value through profit or loss	20	34	18	57
Loans and receivables	3,068	–	3,298	–
Financial liabilities measured at amortized cost	–	7,837	–	7,375

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.

Cash and cash equivalents, trade receivables, other financial assets, and trade payables mostly have short remaining maturities. For this reason, their carrying amounts at the end of the reporting periods are approximately the same as their fair values. An appropriate impairment loss has also been recognized on trade receivables where there is objective evidence.

The fair value of listed bonds is based on the quoted prices at the end of the reporting period. 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, i.e., generalized Black Scholes formulas.

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	12/31/2016	Level 1	Level 2	Level 3
Trade receivables	2,038	–	2,023	15
Other financial assets	465	–	465	–
Cash and cash equivalents	796	796	–	–
Financial liabilities	2,998	753	2,245	–
Trade payables	1,914	–	1,914	–
Other financial liabilities	2,466	–	2,466	–

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

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

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

Level 3: 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 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 2017 and 2016.

The investment in Scania is measured at fair value using a discounted cash flow method and is classified in Level 3 of the fair value hierarchy.

The following table shows the development of the balance sheet items measured at fair value and classified in Level 3, which relate solely to the investment in Scania.

€ million	Financial assets measured at fair value
Balance at January 1, 2016	2,708
Fair value changes recognized in "Measurement of marketable securities and financial investments" in other comprehensive income	129
Balance at December 31, 2016	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

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 5.6% (previous year: 5.4%) 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 €316 million (previous year: €16 million) or reduce it by €254 million (previous year: €16 million), respectively. A variation of +/–0.5 percentage points in the after-tax cost of capital (based on an after-tax calculation) would reduce equity by €310 million (previous year: €302 million) or increase it by €385 million (previous year: €380 million), respectively. There are no significant interrelationships between the significant unobservable inputs.

Other financial investments classified as available for sale are measured at cost and have a carrying amount of €5 million (previous year: €5 million). These are mainly investments in and shares of unlisted entities whose fair values cannot be reliably measured without undue effort. No material shares measured at cost were sold in the reporting period or in the previous year. The Company currently has no intention to sell these shares.

The valuation allowances on financial assets mainly relate to trade receivables and other financial assets. They changed as follows:

€ million	2017	2016
Balance at January 1	**145**	**142**
Additions	22	30
Utilization	– 20	– 17
Reversals	– 20	– 13
Exchange rate effects and other changes	– 3	4
Balance at December 31	**124**	**145**

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.

The gross amount of recognized financial assets and liabilities corresponds to the net amount, since these were not set off in the balance sheet.

		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

€ million	Net amount of financial liabilities presented in the balance sheet	Amounts that are not set off in the balance sheet: Financial instruments	Collateral pledged	Net amount at 12/31/2017
Derivatives	40	– 17	–	24

€ million	Net amount of financial assets presented in the balance sheet	Amounts that are not set off in the balance sheet: Financial instruments	Collateral received	Net amount at 12/31/2016
Derivatives	62	– 24	–	39
Trade receivables	2,038	–	– 7	2,031

€ million	Net amount of financial liabilities presented in the balance sheet	Amounts that are not set off in the balance sheet: Financial instruments	Collateral pledged	Net amount at 12/31/2016
Derivatives	72	– 24	–	48

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.

Net gains and losses on financial instruments are presented in the following table:

€ million	2017	2016
Loans and receivables	19	– 38
Available-for-sale financial assets	1	3
Financial liabilities at cost	– 25	40
Financial assets and liabilities at fair value through profit or loss	– 24	– 84

Net gains and losses on loans and receivables primarily contain changes in valuation allowances, currency translation differences, and reversals of impairment losses.

Net gains and losses on available-for-sale financial assets result primarily from net income from investments.

Net gains and losses on financial liabilities measured at cost are principally composed of gains and losses from currency translation.

Net gains and losses on financial assets and liabilities at fair value through profit or loss contain changes in the fair value of derivative financial instruments for which hedge accounting is not used.

The interest income and expenses relating to financial assets and liabilities that are not measured at fair value through profit or loss are as follows:

€ million	2017	2016
Interest income	23	31
Interest expenses	– 137	– 135

Interest income on impaired financial assets is insignificant because receipt of payment is expected in the short term in most cases.

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 nonderivative 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. Derivatives are accounted for at the trade date.

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. We also enter 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.

The MAN Group's foreign currency exposure at the end of the reporting period consists primarily of transactions denominated in Danish kroner, U.S. dollars, and sterling. MAN SE was not exposed to any material currency risk due to the hedging transactions entered into for this exposure.

Cash flow hedges are generally used for hedge accounting.

In fiscal 2017, net gains of €19 million (previous year: €78 million) from cash flow hedges were recognized in other comprehensive income. In the course of the fiscal year, gains of €46 million (previous year: €69 million) were reclassified from other comprehensive income to other operating income, and losses of €18 million (previous year: €26 million) were reclassified to other operating expenses.

If the results of the retrospective effectiveness test applied to cash flow hedge accounting indicate that effectiveness is not 100% but within the effectiveness range of 80% to 125%, the resulting hedge ineffectiveness is recognized in the other financial result.

The maximum remaining term of cash flow hedges of forecast transactions was 57 months at the end of fiscal 2017. 31% (previous year: 29%) of the hedged forecast transactions are expected to occur and thus affect profit for the period in the first quarter of 2018. A further 52% (previous year: 49%) of the forecast transactions are expected to be implemented by the end of 2018.

There were no fair value hedges.

The nonderivative and derivative financial instruments existing at the end of the reporting period were measured in a hypothetical scenario as part of a sensitivity analysis. The figures reported are after-tax amounts; prior-year figures have been adjusted accordingly. The effects of a 10% increase/decrease in a currency per exchange rate were as follows:

€ million	12/31/2017				12/31/2016			
	Equity		Profit for the period		Equity		Profit for the period	
Exchange rate	+10%	–10%	+10%	–10%	+10%	–10%	+10%	–10%
Euro/Brazilian real	–	–	–8	8	–	–	–12	12
Euro/Danish krone	4	–4	23	–23	5	–5	21	–21
U.S. dollar/Brazilian real	–16	16	–4	4	–20	20	–5	5
Euro/UK pound sterling	13	–13	2	–2	15	–15	3	–3
Euro/Swiss franc	4	–4	–2	2	3	–3	–3	3
Euro/U.S. dollar	3	–3	15	–15	8	–8	14	–14
Mexican peso/U.S. dollar	–1	1	–4	4	–	–	–5	5
Euro/Mexican peso	1	–1	–5	5	–	–	–4	4

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 redemption 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; prior-year figures have been adjusted.

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 to calculate interest rate sensitivity. This would produce the following opportunities (positive values) and risks (negative values):

	12/31/2017		12/31/2016	
€ million	+100 BP	–100 BP	+100 BP	–100 BP
Variable-rate nonderivative financial instruments	–5	5	–3	3

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 €0 million (previous year: €+1 million).

The maximum remaining term of hedges of forecast transactions was 20 months at the end of fiscal 2017. 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 €+1 million (previous year: €+1 million) for +10% or €–1 million (previous year: €–1 million) for –10%, respectively.

d) Credit 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 maximum credit risk is reflected in the carrying amount of the financial assets recognized in the balance sheet; see note (34).

The following measures, in particular, are used to minimize credit risk and measure risk provisions:

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.

Country and counterparty risk resulting from business operations is continuously assessed locally. Risks are classified and profiled on this basis. Outstanding balances are also continuously monitored locally. Impairment losses are recognized if default risks arise. Credit risk is mitigated by various forms of protection, which may also be country-specific if appropriate. These include documentary credits, credit insurance, sureties, guarantees, and retention of title, as well as customer prepayments. In the project business, the default risk is minimized by requiring prepayments and obtaining collateral.

The MAN Group recognizes adequate risk provisions for the credit risk resulting from the operating business. This is achieved by continuously monitoring all receivables. Bad debt allowances are recognized if there is objective evidence of default or other breach of contract. Material individual receivables, as well as receivables whose collectability is in doubt, are measured on an item-by-item basis. The contractual terms governing trade receivables were not changed in the reporting period or in the previous year. The remaining receivables are combined into groups of similar contracts and then tested for impairment, reflecting country-specific risks and any collateral received. The maximum default risk exposure for trade receivables is reduced by collateral of €312 million (previous year: €226 million). The trade receivables include no transferred receivables that were not derecognized in their entirety as of either the 2017 or the 2016 reporting date. The fair values of the receivables and liabilities are not materially different to their carrying amounts.

There were no material concentrations of credit risk in the MAN Group as of the 2017 reporting date.

Maturity overview of financial assets measured at amortized cost that are not individually impaired:

	12/31/2017		12/31/2016	
€ million	Trade receivables	Other financial assets	Trade receivables	Other financial assets
Up to 30 days past due	247	2	224	0
31–90 days	141	0	142	0
91 days–1 year	148	2	138	1
More than 1 year	64	2	77	2
Total financial assets past due but not individually impaired	600	6	582	4
Financial assets neither individually impaired nor past due	1,584	108	1,456	459
Carrying amounts of financial assets not individually impaired	2,184	113	2,038	463

Collective impairment losses are recognized for groups of financial assets on the basis of past experience to cover the credit risk from these receivables and from receivables not past due.

The gross carrying amount of the individually impaired trade receivables was €111 million (previous year: €144 million) and the associated impairment loss €– 106 million, (previous year: €–130 million), so the net carrying amount was €5 million (previous year: €15 million).

There are no indications at the end of the reporting period of the credit quality of receivables and other financial assets that are neither individually impaired nor past due being impaired.

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.

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 €1.95 billion has been drawn down. Short-term cash requirements are covered by money market facilities at banks (drawdowns currently €150 million). Local MAN companies have also agreed financing with the locally based Volkswagen companies in an amount equivalent to €54 million (previous year: €66 million), of which €47 million has been utilized.

There are also committed bilateral credit lines with financial institutions in the amount of €760 million (previous year: €876 million), of which €758 million (previous year: €812 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]

	12/31/2017			12/31/2016		
€ million	2018	2019–2022	> 2022	2017	2018–2021	> 2021
Cash outflows from nonderivative financial liabilities [2]	4,638	3,245	61	5,420	2,003	51
of which financial liabilities	1,641	1,536	13	2,637	425	12
of which trade payables	1,925	–	–	1,914	–	–
of which other financial liabilities [3]	1,073	1,709	49	869	1,578	39
Cash outflows from derivatives with a negative fair value that are settled gross [2]	731	21	–	669	69	–
related cash inflows [2]	705	20	–	650	65	–
Cash outflows from derivatives with a negative fair value that are settled net [2]	11	2	–	34	13	–
Potential cash inflows from financial guarantees	1	–	–	9	–	–

[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.

f) Amounts recognized for hedging instruments

The positive fair values of hedging instruments that are included in a cash flow hedge amounted to €35 million as of December 31, 2017 (previous year: €44 million). The negative fair values of hedging instruments that are included in a cash flow hedge amounted to €7 million as of December 31, 2017 (previous year: €15 million). These relate mainly to currency forwards.

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, 2017, are:

- Volkswagen Truck & Bus GmbH 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 Management and the Supervisory Board of Volkswagen Truck & Bus GmbH,
    - 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, Volkswagen Truck & Bus GmbH 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 Volkswagen Truck & Bus GmbH. 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, 2017, Volkswagen Truck & Bus GmbH held 75.73% of MAN SE's voting rights and 74.55% of its share capital.

Volkswagen Truck & Bus GmbH and MAN SE had a domination and profit and loss transfer agreement in place in fiscal years 2016 and 2017. The loss of €99 million for fiscal 2016 was absorbed on February 22, 2017 (previous year: profit transfer of €513 million), under the domination and profit and loss transfer agreement. No dividend was therefore distributed.

The volume of transactions with Volkswagen Truck & Bus GmbH, 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	**12/31/2017**	**12/31/2016**
Sales and services to		
Volkswagen Truck & Bus GmbH, Volkswagen AG, and Porsche Stuttgart[1]	31	4
other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group	1,493	1,345
Purchases and services received from		
Volkswagen Truck & Bus GmbH, Volkswagen AG, and Porsche Stuttgart[1]	86	68
other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group	393	162
Receivables from		
Volkswagen Truck & Bus GmbH, Volkswagen AG, and Porsche Stuttgart[1]	85	148
other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group	163	434
Liabilities (including obligations) to		
Volkswagen Truck & Bus GmbH, Volkswagen AG, and Porsche Stuttgart[1]	2,235	1,395
other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group	2,446	2,322

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

For the first time, purchases from Volkswagen AG subsidiaries in the reporting period contain the MAN TGE produced by the Volkswagen plant in Września, Poland. The liabilities to Volkswagen Truck & Bus GmbH include the claim by Volkswagen Truck & Bus GmbH for the transfer of MAN SE's net income for fiscal year 2017 under German GAAP amounting to €193 million. See note (28) for further information. The claim by MAN SE against Volkswagen Truck & Bus GmbH for the absorption of the net loss of €99 million under German GAAP for fiscal year 2016 was reported in the receivables from Volkswagen Truck & Bus GmbH as of December 31, 2016, see note (22).

The liabilities also include loans from Volkswagen AG in the amount of €1.95 billion (previous year: €1.25 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 €1,070 million in fiscal 2017 (previous year: €698 million). Furthermore, customer liabilities to financing companies of the Volkswagen Group are covered by standard industry buyback 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	12/31/2017	12/31/2016
Revenue and other income generated with		
unconsolidated subsidiaries	52	54
associates	172	156
Goods and services purchased from		
unconsolidated subsidiaries	8	4
associates	165	222
Receivables from		
unconsolidated subsidiaries	25	25
associates	35	39
Liabilities (including obligations) to		
unconsolidated subsidiaries	34	38
associates	7	20

There is a loan receivable from joint ventures in the amount of €2 million.

At €1,463 million, in fiscal year 2017 the MAN Group for the first time 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.

For information on the transactions with related parties required to be disclosed under IAS 24, please refer to notes (37) and (38) below.

37 Remuneration of the Executive Board

The remuneration of the members of the Executive Board was as follows:

€ thousand	2017	2016
Executive Board members in office as of December 31, 2017 [1]		
Fixed remuneration [2]	1,685	979
Variable remuneration [3, 4]	3,196	1,888
Pension expense	531	306

€ thousand	2017	2016
Former Executive Board members [5, 6]		
Fixed remuneration [2]	179	351
Variable remuneration [3, 4]	450	900
Pension expense	74	107

1 Dr. Uwe Lauber since March 1, 2017, Dr. Carsten Intra since July 1, 2017
2 Including fringe benefits
3 2016: correction following the preparation of the 2016 Annual Report
4 2017: figures based on information currently available
5 Josef Schelchshorn until June 30, 2017
6 Deviations from prior-year figures and the figures provided in the remuneration report are attributable to MAN SE (10%) and MAN Truck & Bus AG (65%) assuming only 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 2017 amounted to €2,381 thousand as of December 31, 2017. The present value of the pension obligations to members of the Executive Board in office at the end of 2016 amounted to €276 thousand as of December 31, 2016. The total pension expense amounted to €605 thousand in 2017 (previous year: €413 thousand), of which €435 thousand (previous year: €210 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 and the pension expense outside MAN for Mr. Josef Schelchshorn attributable ratably to 2017.

MAN SE reimbursed Volkswagen AG for 10% of the remuneration paid to Mr. Schelchshorn until his departure from the Executive Board at midnight on June 30, 2017, including the expenses needed to finance the occupational pension plan. MAN Truck & Bus AG reimbursed Volkswagen AG for 65% of the remuneration paid to Mr. Schelchshorn until his departure from the Executive Board at midnight on June 30, 2017, including the expenses needed to finance the occupational pension plan.

In addition, a special arrangement relating to guaranteed variable remuneration was agreed with Dr. Intra, Mr. Lafrentz, Dr. Lauber, and Mr. Schelchshorn. Mr. Drees, Dr. Intra, Mr. Lafrentz, Dr. Lauber, and Mr. Schelchshorn were already entitled to guaranteed variable remuneration for fiscal 2016.

In the months from January through June 2017, Mr. Drees was entitled to a guaranteed monthly bonus.

Mr. Drees received a special bonus in fiscal years 2016 and 2017. Dr. Intra received a special bonus in fiscal 2016.

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 €9,771 thousand as of December 31, 2017 (previous year: €2,922 thousand). A total of €42,364 thousand (previous year: €53,089 thousand) was recognized as of December 31, 2017, 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 pages 152f., 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 2017/(2016)

€ thousand	Fixed remuneration [1]	Variable remuneration [2, 3]	Pension expense	Total
Executive Board members in office as of December 31, 2017 [1]				
Joachim Drees (Chief Executive Officer) [3]	574 (538)	1,373 (1,170)	186 (210)	2,133 (1,918)
Dr. Carsten Intra (since July 1, 2017)	241 (–)	430 (–)	84 (–)	755 (–)
Jan-Henrik Lafrentz	444 (441)	769 (718)	96 (96)	1,309 (1,255)
Dr. Uwe Lauber (since March 1, 2017)	426 (–)	624 (–)	165 (–)	1,215 (–)
Former Executive Board members				
Josef Schelchshorn (until June 30, 2017)	179 (351)	450 (900)	74 (107)	702 (1,358)
Total [3]	**1,864 (1,330)**	**3,646 (2,788)**	**605 (413)**	**6,114 (4,531)**

[1] Including fringe benefits
[2] 2016: correction following the preparation of the 2016 Annual Report
[3] 2017: figures based on information currently available
[4] Deviations from prior-year figures and the figures provided in the remuneration report are attributable to MAN SE (10%) and MAN Truck & Bus AG (65%) assuming only 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 2017, total remuneration for his work at MAN Truck & Bus AG and MAN SE amounted to €2,133 thousand (fixed remuneration including fringe benefits of €574 thousand; variable remuneration of €1,373 thousand including a special bonus of €196 thousand; €186 thousand for pensions).

Dr. Intra has been a member of the Executive Board of MAN Truck & Bus AG since April 1, 2012. 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). In fiscal 2016, total remuneration for his work at MAN Truck & Bus AG amounted to €1,618 thousand (fixed remuneration including fringe benefits of €446 thousand; variable remuneration of €1,038 thousand including a special bonus of €330 thousand; €134 thousand for pensions).

Dr. Lauber has been a member of the Executive Board of MAN Diesel & Turbo SE since October 1, 2014. 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). In fiscal 2016, total remuneration for his work at MAN Diesel & Turbo SE amounted to €1,418 thousand (fixed remuneration including fringe benefits of €512 thousand; variable remuneration of €720 thousand; €186 thousand for pensions).

38 Remuneration of the Supervisory Board

The components of the remuneration of the Supervisory Board are as follows:

€ thousand	2017	2016
Fixed remuneration	520	525
Variable remuneration	390	–
Remuneration for committee membership	175	178
Attendance fees	40	48
	1,125	**751**

The members of the Supervisory Board, including their memberships in other statutory supervisory boards and comparable supervisory bodies, are listed on pages 150ff., 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 2017	Total 2016
Andreas Renschler, Chairman	Full-year	–	–	–	–	–	–
Jürgen Kerner, Deputy Chairman [1]	Full-year	53	39	35	5	132	94
Prof. Dr.-Ing. Dr.-Ing. E.h. Dr. h.c. Ekkehard D. Schulz, Deputy Chairman	Full-year	53	39	35	5	132	92
Michael Behrendt	Full-year	35	26	35	5	101	76
Helmut Brodrick [1]	Full-year	35	26	18	3	82	56
Matthias Gründler	Full-year	–	–	–	–	–	–
Mag. Julia Kuhn-Piëch	Full-year	35	26	–	2	63	37
Irmgard Maucher [1]	Full-year	35	26	–	2	63	21
Angelika Pohlenz	Full-year	35	26	–	2	63	38
Dr. Dr. Christian Porsche	until 11/10/2017	30	23	–	2	54	38
Mag. Mark Philipp Porsche	Full-year	35	26	–	1	62	38
Oskar Ritsch [1]	Full-year	35	26	18	4	83	47
Karina Schnur [1]	Full-year	35	26	–	2	63	38
Erich Schwarz [1]	Full-year	35	26	–	2	63	37
Athanasios Stimoniaris [1]	Full-year	35	26	35	5	101	76
Steffen Zieger [1]	Full-year	35	26	–	2	63	21
Members who left the Supervisory Board in 2016							48
Total 2017		**520**	**390**	**175**	**40**	**1,125**	**–**
Total 2016		**525**	**–**	**178**	**48**	**–**	**751**

[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, Mr. Behrendt received €36 thousand (previous year: €36 thousand), Mr. Brodrick received €11 thousand (previous year: €11 thousand), Ms. Kuhn-Piëch received €11 thousand (previous year: €11 thousand), Dr. Dr. Porsche received €9 thousand (previous year: €11 thousand), Mr. Porsche received €10 thousand (previous year: €10 thousand), Mr. Ritsch received €11 thousand (previous year: €11 thousand), Ms. Schnur received €25 thousand (previous year: €25 thousand), Prof. Dr. Schulz received €11 thousand (previous year: €11 thousand), Mr. Stimoniaris received €11 thousand (previous year: €11 thousand), and Mr. Zieger received €3 thousand (previous year: €3 thousand).

Expenses reimbursed for attending Supervisory Board and committee meetings amounted to €19 thousand in the fiscal year (previous year: €21 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 2017. The joint declaration of conformity by the Executive Board and the Supervisory Board for MAN SE and for the MAN Group 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**.

The Executive and Supervisory Boards of Renk Aktiengesellschaft, a listed subsidiary based in Augsburg, have also issued a declaration of conformity for Renk AG and for the Renk group. This is included in the management report and group management report of the company and has been published on its website at **www.renk.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 following reportable segments: MAN Truck & Bus, MAN Latin America, MAN Diesel & Turbo, and the Renk subsidiary. 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. "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 adjustments between a business area's segments are presented in the business area itself. Other consolidation adjustments 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.

MAN Diesel & Turbo is a global leader in large marine diesel engines and stationary engines and is also one of the leading suppliers of turbomachinery on the global market.

Renk is a globally recognized manufacturer of high-quality special gear units, propulsion components, and testing systems.

MAN's business activities are focused on two business areas: Commercial Vehicles, comprising MAN Truck & Bus and MAN Latin America, and Power Engineering, featuring MAN Diesel & Turbo and Renk. MAN is one of the leading providers in the international commercial vehicles industry and offers customer-focused products and services worldwide. Power Engineering is MAN's second strategic business area and provides a suitable counterbalance to Commercial Vehicles.

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 2017.

Segment information (1/3)
Reporting period from January 1 to December 31 and as of December 31

	Commercial Vehicles					
	MAN Truck & Bus		MAN Latin America		Commercial Vehicles	
€ million	2017	2016	2017	2016	2017	2016
Segment sales revenue	**10,037**	**9,243**	**1,141**	**861**	**11,085**	**10,002**
Intersegment sales revenue	– 109	– 126	– 9	– 6	– 24	– 30
Group sales revenue	9,928	9,117	1,132	855	11,060	9,972
Segment profit or loss (operating profit or loss)	**532**	**416**	**– 105**	**– 190**	**434**	**209**
of which depreciation and amortization	– 894	– 839	– 29	– 34	– 923	– 871
of which impairment losses	– 1	–	0	– 1	– 1	– 1
Capital expenditures	**584**	**577**	**74**	**89**	**658**	**666**

Segment information (2/3)
Reporting period from January 1 to December 31 and as of December 31

	Power Engineering					
	MAN Diesel & Turbo		Renk		Power Engineering	
€ million	2017	2016	2017	2016	2017	2016
Segment sales revenue	**2,832**	**3,113**	**469**	**496**	**3,283**	**3,593**
Intersegment sales revenue	– 5	– 5	– 16	– 14	– 3	– 3
Group sales revenue	2,827	3,108	453	482	3,280	3,590
Segment profit or loss (operating profit or loss)	**132**	**– 29**	**60**	**67**	**193**	**39**
of which depreciation and amortization	– 100	– 93	– 19	– 19	– 119	– 112
of which impairment losses	0	– 3	–	– 2	0	– 5
Capital expenditures	**157**	**164**	**24**	**26**	**181**	**189**

Segment information (3/3)
Reporting period from January 1 to December 31 and as of December 31

	Others						Group	
	Corporate Center [1]		Cons./Reconcil.		Total			
€ million	2017	2016	2017	2016	2017	2016	2017	2016
Segment sales revenue	**11**	**11**	**– 37**	**– 43**	**– 26**	**– 32**	**14,342**	**13,564**
Intersegment sales revenue	– 10	– 10	37	43	27	33	–	–
Group sales revenue	1	1	–	–	1	1	14,342	13,564
Segment profit or loss (operating profit or loss)	**– 54**	**– 18**	**– 7**	**– 27**	**– 61**	**– 45**	**566**	**204**
of which depreciation and amortization	– 6	– 8	– 18	– 18	– 24	– 26	– 1,065	– 1,008
of which impairment losses	0	0	–	–	0	0	– 2	– 6
Capital expenditures	**214**	**154**	**– 207**	**– 149**	**7**	**5**	**845**	**861**

[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	2017	2016
Total profit of the segments (operating profit of the segments)	**619**	**264**
Corporate Center operating loss	– 54	– 18
Earnings effects from purchase price allocations not attributed to the segments	– 18	– 18
Consolidation within business areas and within the MAN Group	19	– 24
Operating profit (MAN Group)	**566**	**204**
Financial result	– 32	– 155
Profit before tax and discontinued operations (MAN Group)	**533**	**49**

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]
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]	3,331	6,283	4,728	14,342
2016				
Noncurrent assets (excl. financial instruments, equity investments, and deferred taxes) at December 31	3,795	2,560	2,212	8,567
Sales revenue [2]	3,273	5,720	4,571	13,564

[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, 2017

Name and domicile of the company	Equity interest
I. PARENT	
MAN SE, Munich, Germany	
II. SUBSIDIARIES	
A. Consolidated companies	
1. Germany	
MAN HR Services GmbH, Munich	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%
GETAS Verwaltung GmbH & Co. Objekt Ausbildungszentrum KG, Pullach i. Isartal	100.00%
MAN GHH Immobilien GmbH, Oberhausen	100.00%
HABAMO Verwaltung GmbH & Co. Objekt Sterkrade KG, Pullach i. Isartal	100.00%
MAN Truck & Bus AG, Munich	100.00%
MAN Grundstücksgesellschaft mbH & Co. Epsilon KG, Munich	100.00%
MAN Truck & Bus Deutschland GmbH, Munich	100.00%
TORINU Verwaltung GmbH & Co. Beta KG, Pullach i. Isartal	100.00%
TARONA Verwaltung GmbH & Co. Alpha KG, Pullach i. Isartal	100.00%
M A N Verwaltungs-Gesellschaft mbH, Munich	100.00%
MAN Service und Support GmbH, Munich	100.00%
KOSIGA GmbH & Co. KG, Pullach i. Isartal	94.00%
MAN Diesel & Turbo SE, Augsburg	100.00%
GETAS Verwaltung GmbH & Co. Objekt Heinrich-von-Buz-Straße KG, Pullach i. Isartal	100.00%
GETAS Verwaltung GmbH & Co. Objekt Augsburg KG, Pullach i. Isartal	100.00%
Renk Aktiengesellschaft, Augsburg	76.00%
RENK Test System GmbH, Augsburg	100.00%
2. Other countries	
MAN Finance and Holding S.A., Strasse, Luxembourg	100.00%
MAN Latin America Indústria e Comércio de Veículos Ltda., São Paulo, Brazil	100.00%
MAN Truck & Bus Mexico S.A. de C.V., El Marques, Mexico	100.00%
MAN Capital Corp., Pompano Beach, Florida, U.S.A.	100.00%
MAN Trucks Sp. z o.o., Niepolomice, Poland	100.00%
MAN Accounting Center Sp. z o.o., Poznań, Poland	100.00%
MAN Truck & Bus Vertrieb Österreich GmbH, Vienna, Austria	100.00%
MAN Hellas Truck & Bus A.E., Aspropygros, Greece	100.00%
MAN Truck & Bus Schweiz AG, Otelfingen, Switzerland	100.00%
MAN Truck & Bus Slovenija d.o.o., Ljubljana, Slovenia	100.00%
MAN Kamion és Busz Kereskedelmi Kft., Dunaharaszti, Hungary	100.00%
MAN Truck & Bus Asia Pacific Co. Ltd., Bangkok, Thailand	99.99%
MAN Bus Sp. z o.o., Starachowice, Poland	100.00%
MAN Truck & Bus (M) Sdn. Bhd., Rawang, Malaysia	70.00%
MAN Truck & Bus (Korea) Ltd., Yongin, South Korea	100.00%
MAN Truck & Bus Polska Sp. z o.o., Nadarzyn, Poland	100.00%
MAN Trucks India Pvt. Ltd., Pune, India	100.00%
ERF Ltd., Swindon, UK (inactive)	100.00%
MAN Truck & Bus Trading (China) Co., Ltd., Beijing, China	100.00%

Name and domicile of the company	Equity interest
MAN Truck & Bus France S.A.S., Evry, France	100.00%
MAN Truck & Bus Danmark A/S, Greve, Denmark	100.00%
MAN Truck & Bus N.V., Kobbegem, Belgium	100.00%
TOV MAN Truck & Bus Ukraine, Kiev, Ukraine	100.00%
MAN Automotive (South Africa) (Pty) Ltd., Isando, South Africa	100.00%
MAN Truck & Bus (S.A.) (Pty) Ltd., Isando, South Africa (inactive)	100.00%
Centurion Truck & Bus (Pty) Ltd. t/a, Centurion, South Africa	70.00%
MAN Bus & Coach (Pty) Ltd., Olifantsfontein, South Africa (inactive)	100.00%
MAN Engines & Components Inc., Pompano Beach, Florida, U.S.A.	100.00%
MAN Truck & Bus Italia S.p.A, Dossobuono di Villafranca, Italy	100.00%
MAN Truck & Bus Iberia S.A., Coslada, Spain	100.00%
MAN Truck & Bus Portugal S.U. Lda., Lisbon, Portugal	100.00%
Ipecas - Gestão de Imóveis S.A., Lisbon, Portugal	100.00%
MAN Truck & Bus UK Ltd., Swindon, UK	100.00%
MAN Truck & Bus Norge A/S, Lorenskog, Norway	100.00%
MAN Truck & Bus Österreich GmbH, Steyr, Austria	99.99%
MAN Nutzfahrzeuge Immobilien GmbH, Steyr, Austria	100.00%
MAN Truck & Bus Czech Republic s.r.o., Cestlice, Czech Republic	100.00%
MAN Truck & Bus Sverige AB, Kungens Kurva, Sweden	100.00%
MAN Türkiye A.S., Ankara, Turkey	99.99%
MAN Kamyon ve Otobüs Ticaret A.S., Ankara, Turkey	100.00%
MAN Truck & Bus Slovakia s.r.o., Bratislava, Slovakia	100.00%
OOO MAN Truck and Bus RUS, Moscow, Russian Federation	100.00%
OOO MAN Truck & Bus Production RUS, St. Petersburg, Russian Federation	100.00%
MAN Diesel & Turbo Schweiz AG, Zurich, Switzerland	100.00%
MAN Diesel & Turbo South Africa (Pty) Ltd., Elandsfontein, South Africa	100.00%
MAN Diesel & Turbo China Production Co., Ltd., Changzhou, China	100.00%
MAN Diesel & Turbo Australia Pty. Ltd., North Ryde, Australia	100.00%
MAN Diesel & Turbo UK Ltd., Stockport, UK	100.00%
MAN Diesel & Turbo India Pvt. Ltd., Aurangabad, India	100.00%
MAN Diesel ve Turbo Satis Servis Ltd. Sti., Istanbul, Turkey	100.00%
MAN Diesel & Turbo Canada Ltd., Vancouver, British Columbia, Canada	100.00%
MAN Diesel & Turbo Pakistan Pvt. Ltd., Lahore, Pakistan	100.00%
MAN Diesel & Turbo Sverige AB, Gothenburg, Sweden	100.00%
MAN Diesel & Turbo España S.A., Madrid, Spain	100.00%
MAN Diesel & Turbo Brasil Ltda., Rio de Janeiro, Brazil	100.00%
MAN Diesel & Turbo Italia S.r.l., Genoa, Italy	100.00%
MAN Diesel & Turbo Chile Ltda., Valparaíso, Chile	100.00%
MAN Diesel & Turbo France S.A.S., Villepinte, France	100.00%
MAN Diesel & Turbo Singapore Pte. Ltd., Singapore, Singapore	100.00%
MAN Diesel & Turbo Hong Kong Ltd., Hong Kong, China	100.00%
MAN Diesel & Turbo Hellas E.P.E., Piraeus, Greece	100.00%
MAN Diesel & Turbo Benelux B.V., Schiedam, Netherlands	100.00%
MAN Diesel & Turbo Benelux N.V., Antwerp, Belgium	100.00%
MAN Diesel & Turbo North America Inc., Houston, Texas, U.S.A.	100.00%
MAN Diesel & Turbo Panama Enterprises Inc., Panama City, Panama	100.00%

Name and domicile of the company	Equity interest
MAN Diesel & Turbo Korea Ltd., Busan, South Korea	100.00%
PBS Turbo s.r.o., Velká Bíteš, Czech Republic	100.00%
MAN Diesel & Turbo Middle East LLC, Dubai, United Arab Emirates	100.00%
MAN Diesel & Turbo Saudi Arabia LLC, Jeddah, Saudi Arabia	100.00%
MAN Diesel & Turbo Qatar Navigation LLC, Doha, Qatar	49.00%
MAN Diesel & Turbo Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	100.00%
Gulf Turbo Services LLC, Doha, Qatar	55.00%
Renk Corp., Duncan, South Carolina, U.S.A.	100.00%
RENK-MAAG GmbH, Winterthur, Switzerland	100.00%
Renk Systems Corp., Camby, Indiana, U.S.A.	100.00%
Renk France S.A.S., Saint-Ouen-l'Aumône, France	100.00%
MECOS AG, Winterthur, Switzerland	100.00%
MAN Diesel & Turbo Shanghai Logistics Co., Ltd., Shanghai, China	100.00%
MAN Finance Luxembourg S.A., Strassen, Luxembourg	100.00%
MAN Diesel & Turbo Middle East LLC FZE, Fujairah Free Zone, United Arab Emirates	100.00%
MAN Truck & Bus Middle East FZE, Dubai, United Arab Emirates	100.00%
B. Unconsolidated companies	
1. Germany	
MAN Grundstücksgesellschaft mbH, Oberhausen	100.00%
MAN-Unterstutzüngskasse GmbH, Munich	100.00%
MAN Grundstücksgesellschaft mbH & Co. Gamma KG, Munich	100.00%
Ortan Verwaltung GmbH & Co. Objekt Karlsfeld KG, Pullach i. Isartal	100.00%
MAN Personal Services GmbH, Dachau	100.00%
tcu Turbo Charger GmbH, Augsburg	100.00%
MAN Erste Beteiligungs GmbH, Munich	100.00%
LoadFox GmbH, Munich	100.00%
2. Other countries	
MBC Mobile Bridges Corp., Houston, Texas, U.S.A. (inactive)	100.00%
MAN Truck & Bus India Pvt. Ltd., Mumbai, India (inactive)	100.00%
ERF (Holdings) plc, Swindon, UK (inactive)	100.00%
MAN Properties (Midrand) (Pty) Ltd., in liquidation, Isando, South Africa	100.00%
MAN Properties (Pinetown) (Pty) Ltd., in liquidation, Isando, South Africa	100.00%
MAN Properties (Pty) Ltd., in liquidation, Isando, South Africa	100.00%
LKW Komponenten s.r.o., Bánovce nad Bebravou, Slovakia	100.00%
MAN Turbo (UK) Ltd., Stockport, UK (inactive)	100.00%
MAN Diesel Turbochargers Shanghai Co., Ltd., in liquidation, Shanghai, China	100.00%
Mirrlees Blackstone Ltd., Stockport, UK (inactive)	100.00%
Fifty Two Ltd., Stockport, UK (inactive)	100.00%
Ruston & Hornsby Ltd., Stockport, UK (inactive)	100.00%
Paxman Diesels Ltd., Stockport, UK (inactive)	100.00%
Ruston Diesels Ltd., Stockport, UK (inactive)	100.00%

Name and domicile of the company	Equity interest
MAN Diesel & Turbo Kenya Ltd., Nairobi, Kenya	100.00%
Dencop A/S, Copenhagen, Denmark	100.00%
MAN Diesel & Turbo Poland Sp. z o.o., Gdansk, Poland	100.00%
MAN Diesel & Turbo Portugal, Unipessoal, Lda., Setúbal, Portugal	100.00%
MAN Diesel & Turbo Bulgaria EOOD, Varna, Bulgaria	100.00%
MAN Diesel & Turbo Costa Rica Ltda., San José, Costa Rica (inactive)	100.00%
Centrales Diesel Export S.A.S., Villepinte, France	100.00%
MAN Diesel & Turbo Philippines Inc., Manila, Philippines	100.00%
MAN Diesel & Turbo Japan Ltd., Kobe, Japan	100.00%
MAN Diesel & Turbo Norge A/S, Oslo, Norway	100.00%
MAN Iran Power Sherkate Sahami Khass, Tehran, Iran	100.00%
OOO MAN Diesel & Turbo Rus, Moscow, Russian Federation	100.00%
MAN Diesel & Turbo Canarias S.L., Las Palmas, Spain	100.00%
MAN Diesel & Turbo Guatemala Ltda., Guatemala City, Guatemala	100.00%
MAN Diesel & Turbo Argentina S.A., Buenos Aires, Argentina	100.00%
MAN Diesel & Turbo Shanghai Co., Ltd., Shanghai, China	100.00%
PT MAN Diesel & Turbo Indonesia, Jakarta, Indonesia	92.62%
Renk (UK) Ltd., London, UK (inactive)	100.00%
Cofical Renk Mancais do Brasil Ltda., Guaramirim, Brazil	98.00%
Renk Transmisyon Sanayi A.S., Istanbul, Turkey	55.00%
MAN Diesel & Turbo Jordan LLC, in liquidation, Aqaba, Jordan	100.00%
MAN Latin America Importacao, Industria e Comércio de Veículos Ltda., Resende, Brazil (inactive)	100.00%
MAN Diesel & Turbo Mexico, S. de R.L. de C.V., Mexico City, Mexico	100.00%
MAN Diesel & Turbo Lanka Pvt. Ltd., Colombo, Sri Lanka	100.00%
Renk Shanghai Service and Commercial Co., Ltd., Shanghai, China	100.00%
MAN Diesel & Turbo Sénégal SARL, Dakar, Senegal	100.00%
MAN Diesel & Turbo Perú S.A.C., Lima, Peru	100.00%
ELCA Engineering Company (Pty) Ltd., in liquidation, Vanderbijlpark, South Africa (inactive)	100.00%
MAN Diesel & Turbo Bangladesh Ltd., Dhaka, Bangladesh	100.00%
MAN Diesel & Turbo Egypt LLC, Cairo, Egypt	100.00%
MAN Diesel & Turbo Nigeria Pvt. Ltd., Lagos, Nigeria	100.00%
S.A. Trucks Ltd., Bristol, UK (inactive)	100.00%
MAN Financial Services Administrators (S.A.) (Pty) Ltd., Isando, South Africa (inactive)	100.00%
MAN Diesel & Turbo Taiwan Ltd., Kaohsiung, Taiwan	100.00%
MAN Diesel & Turbo New Zealand Ltd., Auckland, New Zealand	100.00%
MAN Diesel & Turbo Malaysia Oil & Gas Sdn. Bhd., Kuala Lumpur, Malaysia	55.00%
MAN Diesel & Turbo Muscat LLC, Muscat, Oman	100.00%
MAN Diesel & Turbo (Gibraltar) Ltd., Gibraltar, Gibraltar	100.00%
MDT CH International GmbH, Zurich, Switzerland	100.00%
Renk Gears Private Ltd., Bangalore, India	100.00%
MAN Diesel & Turbo Nigeria FZE, Lagos, Nigeria	100.00%
Renk Korea Co., Ltd., Busan, South Korea	100.00%
Damen Schelde Gears B.V., Vlissingen, Netherlands	100.00%

Name and domicile of the company	Equity interest
III. JOINT VENTURES	
1. Germany	
2. Other countries	
OOO Truck Production RUS, St. Petersburg, Russian Federation	50.00%
Scania-MAN Administration ApS, Copenhagen, Denmark	50.00%
IV. ASSOCIATES	
1. Germany	
Rheinmetall MAN Military Vehicles GmbH, Munich	49.00%
2. Other countries	
Sinotruk (Hong Kong) Ltd., Hong Kong, China	25.00%
JV MAN AUTO - Uzbekistan LLC, Samarkand City, Uzbekistan	49.00%
Aspin Kemp & Associates Holding Corp., Montague, Prince Edward Island, Canada	40.00%
V. OTHER EQUITY INVESTMENTS	
1. Germany	
Car2Car Communication Consortium, Braunschweig	5.56%
Roland Holding GmbH, Munich	22.83% [1]
Grundstücksgesellschaft Schlossplatz 1 mbH & Co. KG, Berlin	8.16%
Verwaltungsgesellschaft Wasseralfingen mbH, Aalen	50.00%
FFK Fahrzeugservice Förtsch GmbH Kronach, Kronach	30.00%
Coburger Nutzfahrzeuge Service GmbH, Dörfles-Esbach (inactive)	30.00%
MTC Marine Training Center Hamburg GmbH, Hamburg	24.83%
2. Other countries	
Scania AB, Södertalje, Sweden	13.35% [2]
Renk U.A.E. LLC, Abu Dhabi, United Arab Emirates	49.00%
FR8 Revolution Inc., San Francisco, California, U.S.A.	12.20%

[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 Diesel & Turbo SE (Chairman)
[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 (Chairman)

Jürgen Kerner*
Frankfurt,
Executive Board Member of IG Metall

Deputy Chairman of the Supervisory Board

[1] Airbus Operations GmbH
MAN Diesel & Turbo 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 Diesel & Turbo SE
MAN Truck & Bus AG
Renk Aktiengesellschaft

Helmut Brodrick*
Oberhausen,
Works Council Chairman of MAN Diesel & Turbo SE, Oberhausen plant

[1] MAN Diesel & Turbo SE

Matthias Gründler
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

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

Dr. Dr. Christian Porsche
Salzburg/Austria,
Neurologist
(until November 10, 2017)

[1] MAN Truck & Bus AG
[3] Scania AB, Sweden

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
Lochau/Austria,
Designer
(Member of the Supervisory Board since January 23, 2018)

[1] MAN Truck & Bus AG
[3] ItalDesign-Giugiaro S.p. A.

Oskar Ritsch*
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,
Labor Union Secretary of IG Metall

[1] MAN Diesel & Turbo SE
MAN Truck & Bus AG
MAN Truck & Bus Deutschland GmbH

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
[3] Volkswagen Truck & Bus GmbH (Deputy Chairman)

Steffen Zieger*
Leipzig,
Chairman of the General Works Council of MAN Truck & Bus Deutschland GmbH

[1] MAN Truck & Bus Deutschland GmbH (Deputy Chairman)

* Elected by the workforce
As of December 31, 2017, 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, 2017)

Presiding Committee
Andreas Renschler (Chairman)
Michael Behrendt
Jürgen Kerner
Oskar Ritsch
Prof. Dr.-Ing. Dr.-Ing. E.h. Dr. h.c. Ekkehard D. Schulz
Athanasios Stimoniaris

Audit Committee
Matthias Gründler (Chairman)
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] Veritas AG
Volkswagen Financial Services AG
[2] MAN Diesel & Turbo SE
Renk Aktiengesellschaft
[3] Sinotruk (Hong Kong) Ltd., China

Dr. Carsten Intra
Munich,
Chief Human Resources Officer and *Arbeitsdirektor*
(Executive Board member responsible for employee relations)
(since July 1, 2017)

[4] MAN Truck & Bus Österreich GesmbH, Austria

Jan-Henrik Lafrentz
Munich,
Chief Financial Officer

[1] Rheinmetall MAN Military Vehicles GmbH
[2] MAN Diesel & Turbo SE
MAN Truck & Bus Deutschland GmbH
[4] MAN Truck & Bus Österreich GesmbH, Austria

Dr. Uwe Lauber
Laufenburg,
Chief Executive Officer of MAN Diesel & Turbo SE
(since March 1, 2017)

[4] MAN Diesel & Turbo Schweiz AG, Switzerland

Josef Schelchshorn
Ingolstadt,
Chief Human Resources Officer and *Arbeitsdirektor*
(Executive Board member responsible for employee relations)
(until June 30, 2017)

[4] MAN Truck & Bus Österreich GesmbH, Austria

As of December 31, 2017, 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
Ulf Berkenhagen (until February 28, 2017)
Dr. Ulrich Dilling (since July 1, 2017)
Dirk Große-Loheide (since March 1, 2017)
Dr. Carsten Intra
Jan-Henrik Lafrentz
Heinz-Jürgen Löw (until December 31, 2017)
Josef Schelchshorn (until June 30, 2017)
Dr. Frederik Zohm (since July 1, 2017)

MAN Latin America Indústria e Comércio de Veículos Ltda.
São Paulo

Antonio Roberto Cortes, Chairman
Paulo Marcos Barbosa (since February 28, 2017)

MAN Diesel & Turbo SE
Augsburg

Dr. Uwe Lauber, Chief Executive Officer
Frank Burnautzki
Wayne Jones
Arnd Löttgen
Dr. Peter Park
Wilfried von Rath

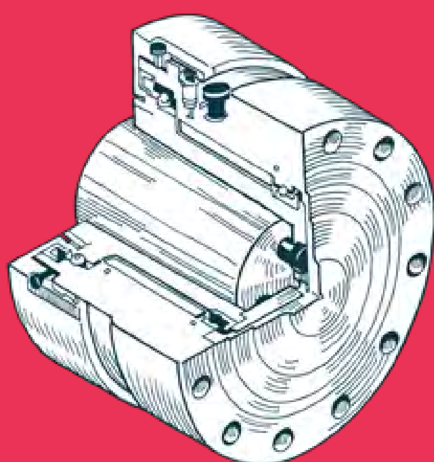
Renk Aktiengesellschaft
Augsburg

Dipl.-Ing. (FH) Florian Hofbauer,
Spokesman of the Executive Board
Christian Hammel

4

FURTHER INFORMATION

PAGES
155 —172



HYGUARD SAFETY COUPLING

Thanks to its flexible construction, this coupling from Renk for high-speed trains is compatible with all major universal joints, engines, and gear units. It can be released in milliseconds, has a precise point of release, requires minimum installation space, and is quick to reconnect – all of which make it an excellent product.

4

PAGE
155

FURTHER INFORMATION

172

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 9, 2018

MAN SE

The Executive Board

Joachim Drees

Dr. Carsten Intra

Jan-Henrik Lafrentz

Dr. Uwe Lauber

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, 2017, 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, 2017, 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, 2017. 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, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, 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, 2017. 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. Customer-specific construction contracts

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. Management's 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 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 amount to a total of € 55 million as of the balance sheet date, while the negative fair values amount to a total of € 41 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 IAS 39, the effective portion of the changes in fair value is recognized in accumulated other comprehensive income over the duration of the hedging relationships until the maturity of the hedged cash flows. In the year under review, a total of € 19 million was recognized in accumulated other comprehensive income as the effective portion of fair value changes. Insofar derivative financial instruments are used to hedge against changes in the carrying amount of balance sheet items pursuant to the requirements of IAS 39, changes in the fair value of both the hedged items and the hedging instruments are recognized on a net basis in the corresponding income statement item (fair value hedges).

   From our point of view these matters were of particular importance for our audit due to the high complexity and number of transactions as well as the extensive accounting and disclosure requirements of IAS 39.

b) As a part of our audit and with the support of our internal specialists from Corporate Treasury Solutions, among other things we assessed the contractual and financial parameters and evaluated the accounting treatment, including the effects on equity and profit or loss, of the various hedges. Together with our specialists, we also evaluated 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 management were substantiated and sufficiently documented.

c) The Company's disclosures on hedge accounting are contained in notes 4k) "Derivatives" and 34 "Additional disclosures on financial instruments" and 35 "Derivatives and hedging strategies" 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 € 799 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) "Other provisions" and 27 "Other provisions" to the consolidated financial statements.

3. Accounting treatment of goodwill

a) The intangible assets reported in the consolidated financial statements of MAN SE include € 731 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 subgroups, 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) "Basis of consolidation" and 15 "Intangible assets" to the consolidated financial statements.

4. Customer-specific construction contracts

a) In the consolidated income statement of MAN SE revenue from customer-specific construction contracts amounting to € 788 million are reported. Revenue for this material item is recognized in accordance with the percentage of completion (PoC) method. This issue was of particular importance for our audit due to the complexity of the applicable accounting standard and the requirement for estimates and assumptions on the part of management with corresponding ranges from an accounting point of view.

b) As part of our audit, we evaluated the processes and controls established by the Group for the purposes of recognizing revenue from customer-specific construction contracts. On this basis, we evaluated the determination of the degree of completion of customer-specific construction contracts and the resulting proportion of revenue and profit recognized. For this purpose, we satisfied ourselves of the progress of the respective projects, among other things based on interviews with project managers and by inspecting project documentation.

   We were able to satisfy ourselves of the appropriateness of the systems, processes and controls in place, and that the estimates and assumptions made by management are sufficiently documented and substantiated to ensure that revenue is properly recognized.

c) The Company's disclosures on customer-specific construction contracts are contained in note 4a) "Revenue recognition" and 6 "Sales revenue" 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 24, 2017. We were engaged by the supervisory board on July 18, 2017. 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 9, 2018

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.

Contractual trust arrangement (CTA): Trust arrangement for funding pension provisions under which a company assigns assets to an autonomous and legally independent trustee as security that it will meet its pension funding obligations.

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 non-current 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 marketable securities, financial investments, and hedging transactions, from the translation of the financial statements of foreign Group companies and from remeasurements of pension plans, after adjustment for deferred taxes.

Percentage of completion (PoC) method: Revenue and profit recognition method that is based on the stage of completion in accordance with IAS 11. This method is applicable to dedicated construction contracts for which the total revenue, total costs, and stage of completion can be reliably determined. Earnings contributions are recognized in accordance with the stage of completion even if the contract has not yet been completed in full and invoiced to the customer.

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.

INDEX

A

B

C

D

E

F

G

H

I

K

L

M

N

O

P

R

S

T

V

W

THE MAN GROUP: SEVEN-YEAR OVERVIEW

€ million	2017	2016	2015	2014	2013[1]	2012	2011
Order intake	**16,062**	**14,357**	**14,381**	**15,332**	**16,207**	**15,889**	**17,145**
of which Germany	3,662	3,677	3,486	3,267	3,570	3,252	3,646
of which other countries	12,400	10,680	10,895	12,066	12,637	12,637	13,499
Order intake by division							
MAN Truck & Bus	11,296	10,342	10,059	9,269	9,551	9,150	9,514
MAN Latin America	1,190	861	1,047	2,253	2,955	2,870	3,579
MAN Diesel & Turbo	3,280	2,808	2,949	3,280	3,407	3,510	3,692
Renk	434	486	483	666	504	525	456
Others/Consolidation	– 138	– 139	– 157	– 135	– 210	– 166	– 96
Sales revenue	**14,342**	**13,564**	**13,702**	**14,286**	**15,861**	**15,772**	**16,472**
of which Germany	3,331	3,273	3,252	2,906	3,388	3,170	3,515
of which other countries	11,011	10,290	10,449	11,380	12,472	12,602	12,957
Sales revenue by division							
MAN Truck & Bus	10,037	9,243	8,997	8,412	9,251	8,822	8,984
MAN Latin America	1,141	861	1,047	2,253	2,955	2,870	3,579
MAN Diesel & Turbo	2,832	3,113	3,305	3,273	3,390	3,780	3,610
Renk	469	496	487	480	485	476	389
Others/Consolidation	– 137	– 150	– 134	– 133	– 221	– 176	– 90
Order backlog at December 31	**6,276**	**5,641**	**6,037**	**6,244**	**5,776**	**6,094**	**6,640**
of which Germany	1,300	1,280	1,164	1,216	1,114	1,067	1,172
of which other countries	4,977	4,360	4,872	5,028	4,662	5,027	5,468
Headcount at December 31	**54,297**	**53,824**	**55,030**	**55,903**	**56,102**	**56,513**	**53,792**
of which German companies	31,441	31,444	31,720	32,309	32,430	32,272	31,302
of which companies outside Germany	22,856	22,380	23,310	23,594	23,672	24,241	22,490
Permanent employees at December 31	**50,455**	**49,982**	**51,234**	**51,995**	**52,182**	**52,481**	**50,178**
Subcontracted employees at December 31	**2,584**	**1,562**	**802**	**879**	**1,327**	**1,802**	**2,364**
Annual average headcount	**53,968**	**54,135**	**55,267**	**55,587**	**55,999**	**55,963**	**52,283**
MAN share data							
Common shares at December 31 (in €)	95.40	94.33	92.70	92.16	89.25	80.75	68.70
Common shares, high (in €)	97.60	95.69	99.02	93.80	89.74	102.45	98.72
Common shares, low (in €)	93.54	90.51	90.20	87.99	82.35	70.76	52.51
Common shares, price/earnings ratio at December 31[2]	47.7	–	90.9	104.7	–	65.7	14.9
Preferred shares at December 31 (in €)	93.99	93.15	91.90	91.31	88.56	75.50	48.35
Preferred shares, high (in €)	96.39	94.50	97.70	93.25	88.95	85.51	69.94
Preferred shares, low (in €)	93.25	90.30	89.13	87.70	75.35	50.54	37.02
Preferred shares, price/earnings ratio at December 31[2]	47.0	–	90.1	103.8	–	61.4	10.5
Dividend per share (in €)[3]	3.07	3.07	3.07	3.07	3.07	1.00	2.30
Earnings per share (IAS 33) (in €)[2]	2.00	– 0.12	1.02	0.88	– 1.47	1.23	4.62
Equity per share (in €)	40.7	38.2	37.0	35.9	36.4	37.7	39.0

[1] 2013: Adjusted to reflect the retrospective application of the income statement, balance sheet, and statement of cash flows structure used by Volkswagen
[2] For continuing operations
[3] MAN SE will not distribute any further dividends from 2014 onward as a result of the DPLTA. Instead, Volkswagen Truck & Bus GmbH agreed to make annual cash compensation payments of €3.07 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.

€ million	2017	2016	2015	2014	2013 [1]	2012	2011
Noncurrent assets	13,391	12,795	11,203	10,534	9,949	11,746	10,623
Inventories	3,397	3,246	3,058	3,095	3,112	3,373	3,513
Other current assets	2,712	2,602	3,070	3,384	8,338	3,426	3,576
Marketable securities and cash and cash equivalents	782	796	779	525	1,138	1,367	958
Total equity	6,125	5,850	5,565	5,485	5,227	5,632	5,590
Pension obligations	590	624	496	603	452	591	378
Noncurrent and current financial liabilities	3,101	2,995	2,515	2,485	3,627	5,299	3,170
Prepayments received	655	705	789	819	852	908	823
Other liabilities and provisions	9,810	9,264	8,745	8,145	12,379	7,482	8,709
Total assets/capital employed	**20,282**	**19,438**	**18,110**	**17,538**	**22,537**	**19,912**	**18,670**
Sales revenue	**14,342**	**13,564**	**13,702**	**14,286**	**15,861**	**15,772**	**16,472**
Cost of sales	– 11,671	– 11,033	– 11,107	– 11,695	– 13,101	– 12,499	– 12,791
Gross profit	**2,671**	**2,531**	**2,594**	**2,591**	**2,760**	**3,273**	**3,681**
Other income and expenses	– 2,105	– 2,327	– 2,502	– 2,207	– 2,451	– 2,304	– 2,198
Operating profit	**566**	**204**	**92**	**384**	**309**	**969**	**1,483**
Earnings effects from purchase price allocations	–	–	–	–	–	– 110	– 109
Gains/losses from nonrecurring items	–	–	–	–	–	– 231	– 118
Net interest expense	–	–	–	–	–	– 312	– 134
Financial result	– 32	– 155	3	– 142	– 137	–	–
Profit before tax	**533**	**49**	**95**	**242**	**172**	**316**	**1,122**
Income tax	– 229	– 55	64	– 100	– 377	– 124	– 434
Profit/loss from discontinued operations, net of tax	17	–	– 10	124	– 308	–	– 441
Profit/loss after tax	**321**	**– 7**	**150**	**267**	**– 513**	**192**	**247**
Noncontrolling interests	10	12	– 10	– 13	– 11	– 12	– 9
Withdrawal from/transfer to reserves	–	–	–	–	545	– 33	100
Total dividend paid by MAN SE [2]	**–**	**–**	**–**	**–**	**21**	**147**	**338**
Depreciation and amortization of, and impairment losses on, noncurrent assets (from 2013 including assets leased out)	– 1,066	– 1,014	– 1,047	– 905	– 980	– 706	– 1,129
Capital expenditures and financing							
Property, plant, and equipment, and intangible assets	819	854	688	605	558	754	601
Equity investments	26	6	20	5	4	175	70
Research and development costs	965	881	791	718	635	–	–
Research and development expenditures	–	–	–	–	–	830	740
Net cash provided by/used in operating activities	268	833	1,162	– 695	136	– 84	518
Net cash used in investing activities attributable to operating activities	– 809	– 831	– 667	– 154	– 526	– 1,233	– 637
Net cash flow (free cash flow until 2013)	– 541	2	495	– 849	– 390	– 1,317	– 119
Key performance indicators							
Operating return on sales (%)	3.9	1.5	0.7	2.7	1.9	–	–
RoS (%)	–	–	2.9	3.0	3.0	6.1	9.0
ROCE (%) [3]	–	–	5.1	5.8	6.9	13.9	24.4

[1] 2013: Adjusted to reflect the retrospective application of the income statement, balance sheet, and statement of cash flows structure used by Volkswagen

[2] MAN SE will not distribute any further dividends from 2014 onward as a result of the DPLTA. Instead, Volkswagen Truck & Bus GmbH agreed to make annual cash compensation payments of €3.07 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.

[3] CE definition adjusted in 2010; marketable securities and cash and cash equivalents also deducted

Publication Details

Published by
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Concept, Design, and Realization
Strichpunkt GmbH
Stuttgart / Berlin

Financial Section
Produced internally with firesys

Illustrations in the Annual Report Magazine
MAN: pages 10, 11, 26, 27, 30
Julian Baumann: pages 4–8
Sam Chivers: pages 12–14
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ITER Organization: page 17
Jan Philip Welchering: pages 18–22
Getty Images: page 29

Illustrations in the Financial Section
Bernd Schifferdecker

Printed by
raff media group gmbh, Riederich

MIX
Paper from responsible sources
FSC® C010264

Print CO2 compensated
Id-No. 1870819
www.bvdm-online.de

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

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