2018 HALF-YEARLY FINANCIAL REPORT

JAN –JUN 2018

Engineering the Future – since 1758.

MAN SE

Contents

Introduction

The half-yearly financial report of MAN SE meets the requirements set out in the applicable provisions of the *Wertpapierhandelsgesetz* (WpHG — German Securities Trading Act) and, in accordance with section 115 of the WpHG, comprises the condensed half-yearly consolidated financial statements, the interim management report of the Group, and a responsibility statement. The half-yearly consolidated financial statements have been prepared in accordance with IAS 34 and comply with the International Financial Reporting Standards (IFRSs) and related Interpretations issued by the International Accounting Standards Board (IASB) that were effective at the end of the reporting period and endorsed by the European Union (EU). The half-yearly financial report should be read in conjunction with the Annual Report for fiscal 2017 and the additional information on the Company contained in it.

AT A GLANCE

Reporting period January 1 to June 30

€ million	2018	2017	Change in %
Order intake	**9,134**	**8,095**	**13%**
Germany	2,194	1,859	18%
Other countries	6,940	6,236	11%
Sales revenue	**7,440**	**6,864**	**8%**
Germany	1,754	1,621	8%
Other countries	5,686	5,244	8%
Headcount [1]	**54,446**	**54,297**	**0%**
			€ million
Operating profit	319	273	47
Operating return on sales (%)	4.3	4.0	0.3
Net cash used in operating activities	– 114	– 12	– 102
Net cash used in investing activities attributable to operating activities	– 279	– 303	24
of which investments in property, plant, and equipment	– 167	– 145	– 23
Net cash flow	– 393	– 315	– 78
R&D costs	350	319	31
Net financial debt [1]	– 2,831	– 2,291	– 540

Any differences in this half-yearly financial report are due to rounding.
[1] As of June 30, 2018, vs. December 31, 2017

INTERIM MANAGEMENT REPORT AS OF JUNE 30, 2018

Results of operations, financial position, and net assets

Changes in financial reporting

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

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

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

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

MAN Energy Solutions has been the new name for MAN Diesel & Turbo since June 2018. It embodies the company's strategic and technological realignment. MAN Energy Solutions is continuing to evolve into a systems and solutions provider and intends to expand its business in sustainable technologies and solutions for shipping, energy generation, and industrial production.

The MAN Group's results of operations

The MAN Group's order intake in the first half of 2018 was up year-on-year in both business areas.

Reporting period January 1 to June 30

Order intake by business area

€ million	2018	2017	Change in %
Commercial Vehicles	7,178	6,240	15
Power Engineering	1,967	1,869	5
Others	– 11	– 14	-
MAN Group	**9,134**	**8,095**	**13**

Measured in terms of units, order intake in the Commercial Vehicles business area rose by 30% to 75,040 (previous year: 57,875). Although momentum declined slightly, the European truck market again recorded moderate growth in an economic environment characterized by solid growth. Order intake at MAN Truck & Bus rose by 12,664 units or 27% year-on-year. In Brazil, demand for trucks grew very significantly compared with the very low figure for the prior-year period as a consequence of the economic recovery. Order intake at MAN Latin America rose by 5,065 units or 43%. Growing export volumes contributed to this increase.

In the Power Engineering business area, the marine, energy generation, and turbomachinery markets posted slight improvements, but remained at a low level. MAN Energy Solutions (formerly MAN Diesel & Turbo) recorded a slight year-on-year increase in order intake. Orders in the Engines & Marine Systems strategic business unit rose significantly, while Power Plants experienced declines in its new construction business. Renk's order intake was up sharply year-on-year, with the increase attributable primarily to a major order in the Vehicle Transmissions business.

The order backlog amounted to €7.4 billion as of June 30, 2018, up 18% compared with December 31, 2017 (€6.3 billion). The Commercial Vehicles business area recorded an increase of 27% to €3.8 billion and the Power Engineering business area posted a 9% increase to €3.6 billion.

The MAN Group generated sales revenue of €7.4 billion in the first six months of fiscal 2018, 8% higher than in the previous year.

Reporting period January 1 to June 30

Sales revenue by business area

€ million	2018	2017	Change in %
Commercial Vehicles	5,813	5,296	10
Power Engineering	1,637	1,579	4
Others	– 10	– 11	-
MAN Group	**7,440**	**6,864**	**8**

Unit sales in the Commercial Vehicles business area rose by 24% to 65,356 vehicles (previous year: 52,723 vehicles). MAN Latin America sold 17,335 vehicles, 48% more than in the previous year (11,750 vehicles). Sales revenue increased by 22%, with currency effects from the devaluation of the real compared with the prior-year period having an offsetting effect. MAN Truck & Bus's sales revenue rose by 9%. It sold 49,040 vehicles (previous year: 41,702 vehicles).

Sales revenue in the Power Engineering business area rose slightly year-on-year in the first six months of 2018. MAN Energy Solutions grew sales revenue by 5%. While sales revenue in the Power Plants and Engines & Marine Systems strategic business units rose compared with the prior-year period, Turbomachinery recorded a decline. Renk's sales revenue was down slightly year-on-year.

The MAN Group's operating profit rose to €319 million in the first half of 2018 (previous year: €273 million). The increase is primarily attributable to a considerable improvement in operating profit at MAN Latin America. Following the strong losses in previous years, MAN Latin America reported an operating profit of €13 million in the first six months. Operating profit at MAN Truck & Bus was up slightly year-on-year due mainly to volume-related factors. Higher expenses for new products and intense competition were offsetting factors. In the Power Engineering business area, operating profit at MAN Energy Solutions recorded moderate growth. By contrast, Renk's operating profit declined sharply year-on-year due to volume- and margin-related factors. The operating loss attributable to Others widened compared with the prior-year figure, due in particular to higher project costs and negative consolidation effects. Fair value measurement gains and losses on certain derivatives, which have been reported in operating profit since the beginning of the year, did not materially affect the MAN Group's operating profit in the first six months of 2018.

Reporting period January 1 to June 30

Operating profit/loss by business area

€ million	2018	2017	Change € million
Commercial Vehicles	296	226	70
Power Engineering	68	73	– 6
Others	– 44	– 27	– 18
MAN Group	**319**	**273**	**47**

The MAN Group's operating return on sales in the first six months was 4.3%, after 4.0% in the prior-year period. The operating return on sales for the Commercial Vehicles business area rose to 5.1% (previous year: 4.3%). In the Power Engineering business area, the operating return on sales declined to 4.1% (previous year: 4.6%).

At €202 million, the financial result was considerably better than in the previous year (€–28 million). The improvement in the financial result was mainly attributable to the equity-method investment in Sinotruk (Hong Kong) Ltd., Hong Kong/China (Sinotruk). On the one hand, the MAN Group's share of Sinotruk's profit increased. On the other, an impairment loss of €145 million was reversed because the investee's business recovered. Additionally, MAN recognized a €56 million dividend from Scania in the first half of 2018. Scania did not pay any dividend in the previous year.

Overall, the MAN Group's profit before tax amounted to €521 million in the first six months (previous year: €245 million). The tax rate was 22% (previous year: 50%) and was positively affected in the first half of 2018 by the reversal of the impairment loss recognized on the investment in Sinotruk and effects of prior-period taxes, in particular. In the prior-year period, it had been primarily impacted by the nonrecognition of deferred tax assets on current losses in Brazil. Profit after tax in the reporting period was €407 million, compared with €140 million in the previous year. In the previous year, it included income from discontinued operations of €17 million arising from prior-period taxes of a former subsidiary, including interest.

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

The MAN Group’s financial position

Net cash flow from the MAN Group’s operating and investing activities attributable to operating activities amounted to €–393 million after the first six months (previous year: €–315 million).

Reporting period January 1 to June 30

Net cash flow by business area

€ million	2018	2017	Change € million
Commercial Vehicles	– 285	– 278	– 7
Power Engineering	– 161	– 56	– 105
Others	54	19	35
MAN Group	**– 393**	**– 315**	**– 78**

The MAN Group’s gross cash flow improved to €874 million (previous year: €665 million) due to earnings-related factors. Operating cash flow in the first half of 2018 was negatively impacted by the higher level of funds tied up in working capital, which amounted to €987 million (previous year: €677 million). The increase in working capital was attributable primarily to the growth in inventories in the amount of €560 million (previous year: €305 million) and increase in receivables in the amount of €306 million (previous year: decrease of €87 million). This was partly offset by a €372 million (previous year: €0 million) increase in liabilities. In the first six months of 2018, this related, among other things, to a €221 million increase in buyback liabilities and an €87 million increase in prepayments received, as well as a €45 million increase in trade payables. Within working capital, the €495 million increase in assets leased out (previous year: €378 million) was partly offset by the depreciation of assets leased out and by the abovementioned increase in buyback liabilities in net cash used in operating activities.

This led to net cash used in operating activities of €114 million (previous year: €12 million) in the first half of 2018.

Net cash used in investing activities attributable to operating activities was €279 million (previous year: €303 million).

In the Commercial Vehicles business area, net cash flow amounted to €–285 million (previous year: €–278 million), due primarily to the higher level of funds tied up in working capital. Net cash flow in the Power Engineering business area was €–161 million (previous year: €–56 million). The net cash flow attributable to Others amounted to €54 million (previous year: €19 million) and included the €56 million dividend payment from Scania AB, Södertälje/Sweden (Scania). Scania did not pay any dividend in the previous year.

Net cash provided by financing activities amounted to €268 million (previous year: €158 million) in the reporting period. This included inflows from the €464 million increase in financial liabilities, as well as the profit transfer to Volkswagen Truck & Bus AG (formerly: Volkswagen Truck & Bus GmbH), Munich (Volkswagen Truck & Bus), for 2017 amounting to €193 million (previous year: loss absorption of €99 million). No dividend was distributed. Instead, Volkswagen Truck & Bus made the contractually defined cash compensation payment (€3.07) to each MAN SE free float shareholder. Among other things, this compensation payment was the subject of award proceedings between MAN SE noncontrolling interest shareholders and Volkswagen Truck & Bus. The competent court increased the payment to more than €5 in a final and unappealable decision dated June 26, 2018. The final amount is expected to be determined in the third quarter of 2018.

The MAN Group’s net debt as of June 30, 2018, was €2,831 million. This represents a deterioration of €540 million compared with December 31, 2017.

Reporting period January 1 to June 30

MAN consolidated statement of cash flows (key figures)

€ million	2018	2017
Cash and cash equivalents at beginning of period	**782**	**796**
Gross cash flow	874	665
Change in working capital	– 987	– 677
Net cash used in operating activities	**– 114**	**– 12**
Net cash used in investing activities attributable to operating activities	– 279	– 303
Net cash flow	**– 393**	**– 315**
Change in loans and time deposits	– 5	28
Net cash used in investing activities	**– 284**	**– 275**
Net cash provided by financing activities	**268**	**158**
Effect of exchange rate changes on cash and cash equivalents	– 18	– 16
Change in cash and cash equivalents	**– 147**	**– 145**
Cash and cash equivalents at June 30	**635**	**651**
Composition of net liquidity/net financial debt at June 30, 2018, and December 31, 2017 [1]		
Cash and cash equivalents	635	782
Securities, loans, and time deposits	33	28
Gross liquidity	**668**	**810**
Total borrowings	– 3,499	– 3,101
Net financial debt	**– 2,831**	**– 2,291**

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

The MAN Group's net assets

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

The MAN Group's total assets amounted to €21,343 million at the end of the reporting period, 5% higher than on December 31, 2017 (€20,282 million).

Overall, noncurrent assets rose by 2% in the period under review. This was primarily attributable to the €162 million increase in lease assets resulting from a higher volume of sales with buyback obligations. Additionally, equity-method investments increased by €151 million, mainly because of the reversal of the impairment loss on the investment in Sinotruk (€145 million).

Current assets were up 12% on the figure as of the end of 2017. Inventories increased by €501 million in the first half of the fiscal year. For the first time, this also reflected the customer prepayments receivable amounting to €276 million, which have been recognized here since the beginning of the year. Cash and cash equivalents amounted to €635 million as of the reporting date (previous year: €782 million).

Noncurrent liabilities and provisions rose by 4% compared with December 31, 2017.

The MAN Group's total equity increased from €6,125 million as of December 31, 2017, to €6,254 million as of June 30, 2018. This is attributable primarily to the increased profit after tax. The first offsetting factor was the lower carrying amount of the investment in Scania, the second – the negative effects from the translation of financial statements of foreign operations, particularly as a result of the performance of the Brazilian real. Additionally, the profit to be transferred to Volkswagen Truck & Bus was accrued. The equity ratio was 29.3% (previous year: 30.2%). Noncontrolling interests are primarily attributable to Renk AG.

€ million	06/30/2018	12/31/2017
Noncurrent assets	13,607	13,391
Current assets	7,737	6,892
Total assets	**21,343**	**20,282**
Equity	6,254	6,125
Noncurrent liabilities and provisions	6,419	6,193
Current liabilities and provisions	8,670	7,964

Report on expected developments

For 2018, the MAN Group's Management anticipates that global economic growth will be slightly below the prior-year level. 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.

Assuming that the moderate growth is not negatively impacted by these risks, MAN SE's Executive Board currently forecasts 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 noticeable increase in unit sales in the Commercial Vehicles business area. We anticipate that order intake in the Power Engineering business area will remain level with the previous 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. 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. By contrast, we are expecting a slight decline in operating profit at MAN Truck & Bus 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 to, among other factors, continuing price pressure in what remains a persistently difficult market environment.

Report on risks and opportunities

The report on risks and opportunities should be read in conjunction with our disclosures in the 2017 consolidated financial statements. The MAN Group's risk position has not changed significantly as against the assessment contained in that report. For information regarding "Litigation/legal proceedings," please see the Notes to the Condensed Half-Yearly Consolidated Financial Statements. With respect to current developments in connection with the economic situation and their effects on MAN's order situation, in particular, as well as on its sales revenue and earnings, please see the sections entitled "The MAN Group's results of operations" and "Report on expected developments," along with the information provided on the individual segments in "The Divisions in Detail."

The Divisions in Detail

MAN Truck & Bus

Reporting period January 1 to June 30

€ million	2018	2017	Change in %
Order intake	6,604	5,733	15
Sales revenue	5,194	4,784	9
Vehicle sales (units)	49,040	41,702	18
			€ million
Operating profit	285	269	17
Operating return on sales (%)	5.5	5.6	-

The European truck market was up slightly on the prior-year level in the first six months of the current fiscal year. For full-year 2018, MAN Truck & Bus expects the truck market also to be slightly higher than the previous year, buoyed by solid, albeit slightly slowing, economic growth. The European bus market was also up slightly on the prior-year level in the first half of 2018. It is assumed that the market will remain roughly unchanged in Europe for full-year 2018.

Order intake at MAN Truck & Bus rose sharply year-on-year to €6,604 million in the first half of 2018 (previous year: €5,733 million). Measured in terms of units, order intake was up 27% on the previous year at 59,621 vehicles (previous year: 46,957 vehicles).

The Trucks business recorded an order intake of €5,481 million (previous year: €4,767 million). The unit figure rose by 27% compared with the first half of 2017 to 55,201 trucks (previous year: 43,349 trucks). This was mainly driven by positive year-on-year growth in Germany, Poland, and Austria. The figures for the Trucks business also include the MAN TGE van series. MAN Truck & Bus received orders for 4,641 (previous year: 756) TGE vans in the first six months.

At €1,123 million, order intake in the Bus business in the first half of 2018 was up 16% on the prior-year figure (€966 million). The unit figure rose significantly year-on-year to 4,420 buses (previous year: 3,608 buses). This was driven by positive growth in Singapore, Saudi Arabia, and Poland, among other factors.

MAN Truck & Bus generated sales revenue of €5,194 million, a year-on-year increase of 9% from €4,784 million. At 49,040 vehicles (previous year: 41,702 vehicles), unit sales grew in line with sales revenue.

Sales revenue in the Trucks business rose to €4,392 million (previous year: €4,048 million). Unit sales were up 17% on the prior-year figure at 45,783 (previous year: 39,080). Growth was particularly positive in Germany, Poland, and Russia. The unit sales figure of the Trucks business included 3,178 TGE vans (previous year: 322 vans). Overall, MAN Truck & Bus's share of the European market for trucks over 6 t was 16.7% in the first half of 2018 (previous year: 15.6%).

Sales revenue in the Bus business increased to €802 million (previous year: €737 million). 3,257 (previous year: 2,622) buses were sold, corresponding to year-on-year growth of 24%. Among other factors, this was attributable to higher volumes in Singapore, Poland, and Israel. In the European bus market, MAN Truck & Bus had a market share of 14.4% (previous year: 13.1%).

At €285 million, operating profit in the first half of 2018 was up on the previous year (€269 million). This corresponds to an operating return on sales of 5.5% (previous year: 5.6%). Significant positive factors driving the increase in profit were provided by the growth in sales revenue attributable to both new vehicles in the Trucks and Bus businesses and in the after-sales business. Offsetting factors included the year-on-year increase in expenses for new products and intense competition.

MAN Latin America

Reporting period January 1 to June 30

€ million	2018	2017	Change in %
Order intake	650	552	18
Sales revenue	674	552	22
Vehicle sales (units)	17,335	11,750	48
			€ million
Operating profit/loss	13	– 48	62
Operating return on sales (%)	2.0	– 8.7	-

Although Brazil is already climbing out of the depths of the economic downturn and is continuing the growth recorded in the previous quarters, the situation in South America's largest economy remains strained. There are growing uncertainties surrounding the forthcoming presidential election in the fall. In late May and early June, a nationwide strike by the truckers' union impacted major sectors of the economy. The industrial action was only ended when the government backtracked on austerity measures. The economic situation in Argentina deteriorated materially over the course of the first six months of the year, with inflation remaining persistently high.

In this environment, the Brazilian commercial vehicles market recorded significant growth in the first six months of 2018 compared with the very weak prior-year period. MAN Latin America received orders for a total of 16,815 vehicles, 43% more than in the previous year (11,750 vehicles).

MAN Latin America sold 17,335 commercial vehicles in the first half of 2018 (previous year: 11,750 vehicles). This 48% increase was driven by both higher unit sales in Brazil and growth in exports. Sales revenue rose by 22% to €674 million (previous year: €552 million). The devaluation of the Brazilian real weighed on this growth.

New registrations for trucks weighing 5 t and over in Brazil increased by 51% to 31,417 units. MAN Latin America sold 10,403 trucks in the Brazilian truck market (previous year: 6,467 trucks). With a total of 8,794 new truck registrations (previous year: 5,421 registrations), MAN Latin America improved its market share to 28.0% (previous year: 26.1%) and defended its leadership position in the Brazilian truck market in a continuously competitive market environment.

New registrations in the Brazilian bus market increased by 14% to 5,575 vehicles. MAN Latin America sold 1,543 bus chassis (previous year: 1,129 chassis), earning a market share of 16.8% (previous year: 18.3%) in a growing market with 939 new bus registrations (previous year: 896 registrations). The company maintained its number two position in the Brazilian bus market.

Brazil's commercial vehicle exports increased on the back of growing demand from Chile, Mexico, Peru, and selected African countries. MAN Latin America sold 5,389 vehicles, 30% more than in the previous year (4,154 vehicles). With a 20.8% share of vehicle exports (previous year: 17.2%), this makes the company one of Brazil's leading exporters.

In the first six months of 2018, MAN Latin America generated an operating profit of €13 million, following a loss of €48 million in the previous year. The significant improvement can be attributed to the increase in demand in all relevant markets, stronger margins, and lower fixed costs. MAN Latin America is continuing to implement its extensive program to strengthen the company in a persistently competitive market environment and therefore to systematically improve its earnings quality. This enabled the company to reduce overheads year-on-year, despite inflationary pressure and growing volumes. MAN Latin America's operating return on sales was 2.0% in the first six months (previous year: –8.7%).

MAN Energy Solutions

Reporting period January 1 to June 30

€ million	2018	2017	Change in %
Order intake	1,693	1,660	2
Sales revenue	1,428	1,363	5
			€ million
Operating profit	51	43	8
Operating return on sales (%)	3.6	3.2	-

In the first half of 2018, the marine market saw a continuation of the muted order activity and only improved slightly at a low level compared with the prior-year period. In the transportation industry, there was a noticeable recovery in the gas tanker market segment. Demand for cruise ships, passenger ferries, fishing vessels, dredgers, and government vessels remained steady. In the offshore sector, the existing excess capacity in the market again curbed investments in offshore oil production. Low market volumes across all segments once again resulted in significant competitive pressure, triggering a noticeable drop in prices.

The energy generation market recovered slightly as against the prior-year period. Higher demand was evident in all areas of application, in particular gas. This shows that the shift away from oil-fired power plants toward dual-fuel and gas-fired power plants is continuing. Demand for energy solutions remains high, with a strong trend toward greater flexibility and decentralized availability. Economic conditions in the developing markets and emerging economies that are important for MAN Energy Solutions have improved somewhat. In addition, ongoing high competitive and price pressure is noticeable across all projects and is impacting the earnings quality of orders, while the persistently difficult financing conditions for customers, especially for larger projects, frequently delay orders being placed.

The market for turbomachinery was somewhat higher in the first half of 2018 than the low level seen in the previous year. Demand for turbocompressors in the raw materials, oil, gas, and processing industry again exhibited greater volatility due to political uncertainties in some sales markets. The steam and gas turbines business is still suffering as a result of electricity producers' excess capacity, but recorded a moderate recovery above all in those regions with a low level of electrification. Although competitive and price pressure declined somewhat compared with the prior-year period, it remains high because of the low demand and the market volatility.

The after-sales market for diesel engines in the marine and power plant sector showed general improvement and benefited from growing interest in long-term maintenance contracts. The after-sales market for turbomachinery came under pressure and was slightly down year-on-year.

Order intake at MAN Energy Solutions was €1,693 million in the first six months, 2% higher than the prior-year figure (€1,660 million). In the Engines & Marine Systems strategic business unit, order intake improved by 16% year-on-year to €833 million (previous year: €718 million). Increases, especially in the distribution and licensing business as well as in new construction, had a positive impact. At €382 million, order intake in the Power Plants strategic business unit dropped by 18% year-on-year (previous year: €466 million), due in particular to lower volumes in new construction. Order volumes in the Turbomachinery strategic business unit were on a level with the previous year at €479 million (€476 million).

Sales revenue in the first six months of 2018 amounted to €1,428 million, up 5% compared with the prior-year period (€1,363 million). At €705 million (previous year: €659 million), sales revenue in the Engines & Marine Systems strategic business unit grew by 7% year-on-year. In the Power Plants strategic business unit, sales revenue rose by 28% to €320 million (previous year: €251 million) for billing reasons. The Turbomachinery strategic business unit's sales revenue of €403million (previous year: €453 million) declined by 11% year-on-year.

MAN Energy Solutions recorded an operating profit of €51 million in the first six months of fiscal 2018 (previous year: €43 million) and an operating return on sales of 3.6% (previous year: 3.2%). The earnings improvement is due, in particular, to the higher revenue volume.

Renk

Reporting period January 1 to June 30

€ million	2018	2017	Change in %
Order intake	288	221	30
Sales revenue	218	224	– 3
			€ million
Operating profit	17	30	– 13
Operating return on sales (%)	7.6	13.3	-

Renk increased order intake to €288 million (previous year: €221 million) in the first six months of fiscal 2018. The Vehicle Transmissions business doubled its order intake year-on-year due to a major order from the Far East. The Special Gear Units business also recorded growth in order intake. By contrast, the Slide Bearings business only just matched the prior-year level, while the Standard Gear Units business posted a year-on-year decline.

Renk's sales revenue declined slightly year-on-year to €218 million (previous year: €224 million). While sales revenue in the Vehicle Transmissions and Special Gear Units businesses was on a level with the previous year, deliveries in the Slide Bearings and Standard Gear Units businesses were lower than in the prior-year period.

Due to the intensified competitive situation, a less favorable product mix, and delays in some projects, Renk's operating profit declined to €17 million in the first half of 2018 (previous year: €30 million). Only the Vehicle Transmissions business was able to generate an operating profit on a level with the previous year, with all other businesses posting a considerable decline in operating profit.

Events after the reporting period

See the Notes to the Condensed Half-Yearly Consolidated Financial Statements for events after the reporting period.

CONDENSED HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2018

MAN consolidated income statement

Reporting period January 1 to June 30

€ million	2018	2017 [1]
Sales revenue	7,440	6,864
Cost of sales	– 5,944	– 5,418
Gross profit	**1,496**	**1,447**
Other operating income	204	170
Distribution expenses	– 780	– 790
General and administrative expenses	– 418	– 388
Other operating expenses	– 181	– 167
Operating profit	**319**	**273**
Share of profits and losses of equity-method investments	59	16
Interest income	19	20
Interest cost	– 69	– 74
Other financial result	194	10
Financial result	**202**	**– 28**
Profit before tax	**521**	**245**
Income taxes	– 115	– 122
Income from discontinued operations, net of tax	–	17
Profit/loss after tax	**407**	**140**
of which attributable to noncontrolling interests	3	5
of which attributable to shareholders of MAN SE	404	135
Earnings per share from continuing operations in € (diluted/basic)	**2.75**	**0.80**
Earnings per share from continuing and discontinued operations in € (diluted/basic)	**2.75**	**0.92**

[1] Prior-year figures were adjusted. Further explanations are contained in the "Other accounting policies" disclosures.

MAN consolidated reconciliation of comprehensive income for the period

Reporting period January 1 to June 30

€ million	2018	2017
Profit/loss after tax	**407**	**140**
Items that will not be reclassified to profit or loss		
Pension plan remeasurements	– 5	62
Other comprehensive income for the period from equity-method investments	0	– 2
Other comprehensive income for the period from the fair value measurement of other equity investments (equity instruments)	– 44	–
Deferred taxes	1	– 12
Items that will be reclassified subsequently to profit or loss		
Currency translation differences	– 84	– 106
Measurement of marketable securities and financial investments	–	– 124
Change in fair values of derivatives (hedging instruments)	– 38	6
Costs of hedging measures	– 1	–
Other comprehensive income for the period from equity-method investments	2	– 6
Deferred taxes	13	0
Other comprehensive income	**– 156**	**– 181**
Total comprehensive income	**251**	**– 41**
of which attributable to noncontrolling interests	3	5
of which attributable to shareholders of MAN SE	**248**	**– 46**

MAN consolidated balance sheet as of June 30, 2018

Assets

€ million	06/30/2018	12/31/2017
Intangible assets	2,290	2,321
Property, plant, and equipment	2,601	2,639
Equity-method investments	673	522
Other equity investments	3,173	3,213
Assets leased out	3,666	3,504
Noncurrent income tax receivables	19	21
Deferred tax assets	596	575
Other noncurrent financial assets	36	34
Other noncurrent receivables	552	563
Noncurrent assets	**13,607**	**13,391**
Inventories	3,898	3,397
Trade receivables	2,277	2,171
Current income tax receivables	99	61
Other current financial assets	492	136
Other current receivables	335	344
Cash and cash equivalents	635	782
Current assets	**7,737**	**6,892**
	21,343	**20,282**

MAN consolidated balance sheet as of June 30, 2018

Equity and liabilities

€ million	06/30/2018	12/31/2017
Subscribed capital	376	376
Capital reserves	795	795
Retained earnings	4,187	3,904
Accumulated other comprehensive income	791	945
Equity attributable to shareholders of MAN SE	**6,149**	**6,020**
Noncontrolling interests	105	104
Total equity	**6,254**	**6,125**
Noncurrent financial liabilities	1,504	1,490
Pensions and other post-employment benefits	595	590
Deferred tax liabilities	402	329
Noncurrent income tax provisions	122	108
Noncurrent contract liabilities	193	–
Other noncurrent provisions	685	733
Other noncurrent financial liabilities	1,803	1,741
Other noncurrent liabilities	1,116	1,202
Noncurrent liabilities and provisions	**6,419**	**6,193**
Current financial liabilities	1,995	1,611
Trade payables	1,950	1,925
Prepayments received	–	655
Current income tax payables	43	46
Current income tax provisions	133	129
Current contract liabilities	945	–
Other current provisions	953	1,036
Other current financial liabilities	1,189	1,110
Other current liabilities	1,463	1,452
Current liabilities and provisions	**8,670**	**7,964**
	21,343	**20,282**

MAN consolidated statement of cash flows

Reporting period January 1 to June 30

€ million	2018	2017
Cash and cash equivalents at beginning of period	**782**	**796**
Profit before tax	521	245
Income taxes refunded/paid	21	– 71
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property [1]	177	179
Amortization of, and impairment losses on, capitalized development costs [1]	57	48
Depreciation of assets leased out [1]	305	301
Change in pension provisions	1	– 12
Loss on disposal of noncurrent assets and equity investments	– 2	– 4
Share of profits and losses of equity-method investments	– 202	– 10
Other noncash income	– 5	– 10
Change in inventories	– 560	– 305
Change in receivables	– 306	87
Change in liabilities (excluding financial liabilities)	372	0
Change in provisions	1	– 81
Change in assets leased out	– 495	– 378
Net cash used in operating activities	**– 114**	**– 12**
Payments to acquire property, plant, and equipment and intangible assets (excluding capitalized development costs)	– 167	– 145
Additions to capitalized development costs	– 133	– 150
Payments to acquire other investees	– 2	– 15
Proceeds from asset disposals (other than assets leased out)	23	7
Change in loans and time deposits	– 5	28
Net cash used in investing activities	**– 284**	**– 275**
Dividends allocated to noncontrolling interests	– 3	– 4
Profit transfer/loss absorption	– 193	99
Repayment of bonds	–	– 750
Change in other financial liabilities	464	813
Net cash provided by financing activities	**268**	**158**
Effect of exchange rate changes on cash and cash equivalents	– 18	– 16
Change in cash and cash equivalents	**– 147**	**– 145**
Cash and cash equivalents at June 30	**635**	**651**

[1] Net of impairment reversals

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, 2017	**376**	**795**	**3,904**	**945**	**6,020**	**104**	**6,125**
Changes in accounting policy due to IFRS 9 and IFRS 15	–	–	– 10	2	– 8	1	– 7
Adjusted balance at January 1, 2018	**376**	**795**	**3,894**	**948**	**6,013**	**105**	**6,118**
Profit/loss after tax	–	–	404	–	404	3	407
Other comprehensive income	–	–	–	– 156	– 156	0	– 156
Total comprehensive income	–	–	404	– 156	248	3	251
Dividends allocated to noncontrolling interests	–	–	–	–	–	– 3	– 3
Other changes [1]	–	–	– 111	0	– 111	–	– 111
Balance at June 30, 2018	**376**	**795**	**4,187**	**791**	**6,149**	**105**	**6,254**
Balance at December 31, 2016	**376**	**795**	**3,786**	**795**	**5,752**	**98**	**5,850**
Profit after tax	–	–	135	–	135	5	140
Other comprehensive income	–	–	–	– 181	– 181	0	– 181
Total comprehensive income	–	–	135	– 181	– 46	5	– 41
Dividends allocated to noncontrolling interests	–	–	–	–	–	– 4	– 4
Other changes [1]	–	–	– 171	0	– 171	0	– 171
Balance at June 30, 2017	**376**	**795**	**3,749**	**614**	**5,534**	**99**	**5,633**

[1] Retained earnings include the share of profit/loss attributable to Volkswagen Truck & Bus in the event of profit/loss transfer based on profit/loss under German GAAP.

NOTES TO THE CONDENSED HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS

Basis of presentation

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, MAN SE, Munich, prepared its consolidated financial statements for 2017 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. The accompanying condensed half-yearly consolidated financial statements (half-yearly consolidated financial statements) as of June 30, 2018, were prepared in accordance with IAS 34, do not contain all the information and disclosures required by IFRSs for full-year consolidated financial statements, and should be read in conjunction with the Company's published IFRS consolidated financial statements for fiscal year 2017. Unless expressly indicated otherwise, the accounting policies applied to these half-yearly consolidated financial statements are identical to those adopted for the most recent full-year consolidated financial statements. A detailed description of these accounting policies is given in the notes to the consolidated financial statements for the year ended December 31, 2017. All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

From the Executive Board's perspective, the accompanying unaudited half-yearly consolidated financial statements reflect all standard intraperiod adjustments required for the presentation of a true and fair view of the Group's net assets, financial position, and results of operations. The results presented for the first six months of fiscal 2018 are not necessarily indicative of future results.

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

Basis of consolidation

The half-yearly consolidated financial statements as of June 30, 2018, comprise 100 companies (December 31, 2017: 101), including 20 (20) in Germany and 80 (81) outside Germany. The effects of the changes in the basis of consolidation on the half-yearly consolidated financial statements were immaterial.

Accounting policies

IFRS 15 — Revenue from Contracts with Customers

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

Starting in fiscal year 2018, financing cost subsidies previously recognized in distribution expenses are recognized as sales allowances. In addition, reversals of provisions for customer rebates are reported in sales revenue rather than other operating income starting in 2018. Compared with the requirements of IAS 11, IAS 18, and the related Interpretations in force prior to IFRS 15, sales revenue in the first six months of 2018 was lower by €1 million overall.

In addition, prepayments received and other revenue-related deferral items are combined as contract liabilities under IFRS 15 in the MAN Group's balance sheet. The recognition of prepayments that are due but have not yet been paid by customers in the form of cash increases total assets.

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

€ million	12/31/2017 before adjustment	IFRS 15 adjustment	01/01/2018 after adjustment
Total assets	**20,282**	**170**	**20,452**
Other financial assets	171	170	341
of which customer prepayments receivable	–	170	170
Total liabilities and provisions	**14,157**	**167**	**14,324**
Other provisions	1,770	– 104	1,666
of which warranty provisions	799	–88	711
of which provisions for outstanding costs	254	–16	238
Other liabilities	2,653	–129	2,525
of which deferred purchase price payments for assets leased out	1,640	–20	1,620
of which miscellaneous other liabilities	143	–109	34
Prepayments received	655	– 655	–
Contract liabilities	–	1,055	1,055
Total equity	**6,125**	**3**	**6,128**
Retained earnings	3,904	3	3,907

IFRS 9 — Financial Instruments

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

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

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

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

This also results in far more extensive disclosures.

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

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

€ million	12/31/2017 before adjustment	IFRS 9 adjustment	01/01/2018 after adjustment
Total assets	**20,282**	**– 12**	**20,270**
Noncurrent assets			
Other equity investments	3,213	3	3,216
Current assets			
Trade receivables	2,171	– 14	2,157
Other current financial assets	136	– 1	135
Total equity and liabilities	**20,282**	**– 12**	**20,270**
Total equity	**6,125**	**– 12**	**6,113**
Retained earnings	3,904	– 15	3,892
Accumulated other comprehensive income	945	2	947
Noncontrolling interests	104	1	105

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other accounting policies

To make the presentation consistent with the changes resulting from IFRS 15 and to enhance comparability, the way other income from the reversal of provisions and accrued liabilities is reported was also adjusted; these items are allocated to those functions in which they were originally recognized. Prior-period amounts were adjusted accordingly. This reduced prior-period other operating income by €59 million. Cost of sales therefore declined by €51 million and distribution expenses by €8 million.

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

A discount rate of 1.6% (December 31, 2017: 1.6%) was applied to pension provisions in Germany in the accompanying half-yearly consolidated financial statements.

In all other respects, the same accounting policies and consolidation principles were generally applied to the preparation of the half-yearly consolidated financial statements and the presentation of the prior-year comparative figures as to the 2017 consolidated financial statements. A detailed description of these accounting policies is given in the notes to the 2017 consolidated financial statements. In addition, the effects of the new standards are described in more detail under the disclosures on "New or amended IFRSs not applied."

Discontinued operations

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

The net profit generated by Ferrostaal, which was reported under "Profit from discontinued operations, net of tax" in the first six months of fiscals 2017 and 2018, is presented in the following:

Reporting period January 1 to June 30

€ million	2018	2017
Disposal gain	–	25
Income taxes	–	–7
	–	**17**

The effects in the first six months of fiscal 2017 are the result of subsequent purchase price adjustments for prior-period taxes of a former subsidiary, including interest. The amounts presented are included in "Net cash used in operating activities" in the statement of cash flows for January 1 to June 30, 2017. There were no other cash flows from discontinued operations in the reporting period or in the prior-year period.

Income Statement Disclosures

Sales revenue

Reporting period January 1 to June 30, 2018

€ million	MAN Truck & Bus	MAN Latin America	MAN Energy Solutions	Renk	Others	Group
Vehicles	3,137	602	–	–	– 39	3,700
Genuine parts in the commercial vehicles business	732	44	–	–	– 16	761
Used vehicles	344	7	–	–	–	351
Engines, powertrains	201	–	–	–	– 8	193
Buyback and leasing business	418	–	–	–	–	418
Construction contracts in the Power Engineering business area	–	–	444	10	–	454
Other business in the Power Engineering business area	–	–	984	208	– 11	1,182
Other sales revenue	361	21	–	0	– 1	381
	5,194	**674**	**1,428**	**218**	**– 74**	**7,440**

Sales revenue for the first six months of 2018 includes revenue from operating leases of €418 million.

Sales revenue from construction contracts is recognized over time and includes revenue from the construction of new marine diesel engines and stationary engines, turbomachinery, and testing systems. The sales revenue generated by MAN Energy Solutions and Renk from services and license royalties is contained in the "Other business in the Power Engineering business area." Other sales revenue includes revenue from workshop services in the Commercial Vehicles business area.

Other financial result

Reporting period January 1 to June 30

€ million	2018	2017
Other income from equity investments	205	2
Realized income from currency translation	1	0
Realized expenses from currency translation	– 1	– 1
Gains/losses from remeasurement and impairment of financial instruments	– 40	14
Gains/losses from changes in the fair value of derivatives not included in hedge accounting	30	– 5
Other financial result	**194**	**10**

The increase in other income from equity investments is primarily attributable to the reversal of the impairment loss on the carrying amount of the investment in Sinotruk amounting to €145 million and dividend income from the investment in Scania amounting to €56 million (no dividend was paid in the previous year).

Research and development costs

Reporting period January 1 to June 30

€ million	2018	2017
Total R&D costs	426	422
of which capitalized development costs	– 133	– 150
Capitalization ratio in %	31.1	35.6
Amortization of, and impairment losses on, capitalized development costs	57	48
R&D costs recognized in the income statement	**350**	**319**

The lower capitalization ratio reflects the reduced investments in new products mainly in the MAN Energy Solutions and MAN Latin America segments.

Balance sheet disclosures

Equity-method investments

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

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

The quoted market value of the shares in Sinotruk amounted to €976 million as of June 30, 2018 (previous year: €648 million), based on the equity interest held by MAN.

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

Balance sheet

€ million	2018 [1]	2017 [2]
Noncurrent assets	2,150	2,086
Current assets	5,693	5,449
Total assets	**7,843**	**7,534**
Noncurrent liabilities and provisions	55	55
Current liabilities and provisions	4,528	4,420
Total liabilities and provisions	**4,583**	**4,475**
Net assets	**3,260**	**3,060**

[1] Amounts shown relate to the reporting period ended December 31, 2017.
[2] Amounts shown relate to the reporting period ended June 30, 2017.

Statement of comprehensive income

€ million	2018 [1]	2017 [2]
Sales revenue	3,691	2,380
Profit after tax from continuing operations	226	49
Other comprehensive income	1	11
Total comprehensive income	**227**	**60**
Dividends received	–	6

[1] Amounts shown relate to the reporting period from July 1, 2017, through December 31, 2017.
[2] Amounts shown relate to the reporting period from July 1, 2016, through December 31, 2016.

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

€ million	2018	2017
Net assets	3,260	3,060
Noncontrolling interests	343	327
Net assets attributable to shareholders	2,917	2,733
Interest held by MAN in % [1]	25	25
Net assets attributable to the MAN Group	**729**	**683**
Impairment losses	–	–190
Dividend receivable for 2017	–53	–
Goodwill, effect of purchase price allocation, currency translation differences, and other changes	–47	–9
Carrying amount at June 30	**629**	**484**

[1] 25% plus one share

Inventories

€ million	06/30/2018	12/31/2017
Raw materials, consumables, and supplies	571	526
Work in progress	1,212	988
Finished goods and purchased merchandise	2,032	1,808
Prepayments	82	76
	3,898	**3,397**

The reduction in expenses from the reversal of impairment losses recognized on inventories amounted to €28 million (previous year: €5 million).

Other financial assets

€ million	06/30/2018	12/31/2017
Positive fair value of derivatives	60	55
Receivables from loans	43	31
Customer prepayments receivable	276	–
Other financial assets	150	84
	528	**171**

For information on customer prepayments receivable, please refer to the "Accounting policies" chapter, where the changes caused by IFRS 15 are explained.

Other financial assets are reported as follows:

€ million	06/30/2018	12/31/2017
Other noncurrent financial assets	36	34
Other current financial assets	492	136

Financial liabilities

€ million	06/30/2018	12/31/2017
Liabilities to banks	1,096	983
Liabilities to Volkswagen AG	1,900	1,950
Loans and other liabilities	502	168
	3,499	**3,101**

Financial liabilities are reported in the following balance sheet items:

€ million	06/30/2018	12/31/2017
Noncurrent financial liabilities	1,504	1,490
Current financial liabilities	1,995	1,611

The credit facility extended by Volkswagen Aktiengesellschaft, Wolfsburg (Volkswagen AG), was unchanged compared with the year-end and was drawn down in the amount of €1,900 million as of the June 30, 2018, reporting date (December 31, 2017: €1,950 million).

Other provisions

€ million	06/30/2018	12/31/2017
Warranties	735	799
Outstanding costs	234	254
Obligations to employees	180	184
Litigation and legal risks	90	99
Restructurings	96	114
Miscellaneous provisions	303	319
	1,638	**1,770**

For information on the adjustments to provisions, please refer to the "Accounting policies" chapter, where the changes caused by IFRS 15 are explained.

The provisions for restructurings relate to the restructuring measures MAN Truck & Bus, MAN Latin America, and MAN Energy Solutions 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.

Other provisions are reported in the following balance sheet items:

€ million	06/30/2018	12/31/2017
Other noncurrent provisions	685	733
Other current provisions	953	1,036

Other liabilities

€ million	06/30/2018	12/31/2017
Deferred purchase price payments for assets leased out	1,681	1,640
Payroll liabilities	454	455
Miscellaneous other tax payables	379	393
Liabilities related to social security contributions	24	22
Miscellaneous other liabilities	41	143
	2,580	**2,653**

For information on the structural revision of the presentation of other liabilities, please refer to the "Accounting policies" chapter, where the changes caused by IFRS 15 are explained.

Other liabilities are reported in the following balance sheet items:

€ million	06/30/2018	12/31/2017
Other noncurrent liabilities	1,116	1,202
Other current liabilities	1,463	1,452

Contingent liabilities and commitments

Customer liabilities to financial services companies of the Volkswagen Group and, to a small extent, third parties are covered by standard industry buyback guarantees under which MAN Truck & Bus is obliged to buy back vehicles from the financial services company in the event of default. The maximum expenses under buyback guarantees totaled €2,031 million as of June 30, 2018 (previous year: €1,897 million), including €2,024 million (previous year: €1,890 million) to financial services companies of the Volkswagen Group. However, experience shows that the majority of these guarantees expire without being drawn upon.

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 amount to approximately €661 million (previous year: €730 million). This assessment is based on the accumulated amounts as of 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. The year-on-year decline is attributable to currency-related factors.

There were no material changes in the other contingencies and commitments compared with the situation described in the consolidated financial statements as of December 31, 2017.

Litigation/legal proceedings

MAN SE's Annual Report for fiscal year 2017 contains detailed information on litigation and legal proceedings.

In 2011, the European Commission launched an antitrust investigation into suspected antitrust violations in the European truck business between 1997 and 2011 and sent MAN and all other truck 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 truck 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.

There have been no other significant developments for MAN since the publication of the Annual Report.

Fair value disclosures

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

	Measured at fair value						
	Recognized in other comprehensive income	Through profit or loss	Measured at amortized cost		Derivatives included in hedging relationships	Not allocated to any IFRS 9 measurement category	Balance sheet item at 06/30/2018
€ million	Carrying amount	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets							
Equity-method investments	–	–	–	–	–	673	673
Other equity investments	3,136	–	–	–	–	37	3,173
Other financial assets	–	0	36	36	0	–	36
Current assets							
Trade receivables	–	–	2,037	2,037	–	240	2,277
Other financial assets	–	48	433	433	11	–	492
Cash and cash equivalents	–	–	635	635	–	–	635
Noncurrent liabilities							
Financial liabilities	–	–	1,504	1,504	–	–	1,504
Other financial liabilities	–	2	1,787	1,787	13	–	1,803
Current liabilities							
Financial liabilities	–	–	1,995	1,995	–	–	1,995
Trade payables	–	–	1,950	1,950	–	–	1,950
Other financial liabilities	–	26	1,151	1,151	12	–	1,189

€ 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 12/31/2017
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

Financial assets measured at fair value through other comprehensive income include other equity investments in corporations (equity instruments) for which the MAN Group exercises the option to measure them at fair value through other comprehensive income. This was classified in Level 3 as of both June 30, 2018, and December 31, 2017. For instruments measured through other comprehensive income, changes in fair value are recognized directly in equity, taking deferred taxes into account. These include, in particular, the investment in Scania.

The other assets and liabilities in the "measured at fair value" class were classified in Level 2 as of June 30, 2018, and December 31, 2017.

Derivatives included in hedging relationships were classified in Level 2.

Fair value hierarchy:

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

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

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

Level 3: Unobservable inputs for the asset or liability.

The transfers between the levels of the fair value hierarchy are reported at the respective reporting dates. During the six months to June 30, 2018, there were no reclassifications between Level 1 and Level 2 of the fair value hierarchy, and there were no reclassifications into or out of Level 3 of the fair value hierarchy. As in fiscal year 2017, there were no reclassifications within the hierarchy in the six months ended June 30, 2018.

The following table shows the development of the balance sheet items measured at fair value and classified in Level 3. The €–44 million (previous year: €–124 million) change in other comprehensive income relates to the "Other comprehensive income for the period from the fair value measurement of other equity investments (equity instruments)" item.

€ million	Financial assets measured at fair value (Level 3)
Balance at January 1, 2017	2,838
Fair value changes recognized in "Measurement of marketable securities and financial investments" in other comprehensive income	–124
Balance at June 30, 2017	2,713
Balance at January 1, 2018	3,172
IFRS 9 adjustment	8
Balance at January 1, 2018, after adjustments	3,180
Fair value changes recognized in "Other comprehensive income for the period from the fair value measurement of other equity investments (equity instruments)"	–44
Balance at June 30, 2018	3,136

Equity instruments are measured primarily using the relevant business plans and entity-specific discount rates. The inputs used to measure the fair value of the investment in Scania were largely unchanged compared with those used as of December 31, 2017, with the exception of the cost of capital. The cost of capital after tax increased from 5.6% as of December 31, 2017, to 5.7% as of June 30, 2018. As of June 30, 2018, there were no material changes to the assessment of the impact on equity or profit after tax resulting from changes in the significant unobservable inputs, either in isolation or in combination with each other, compared with the assessment presented in the 2017 Annual Report.

The carrying amount of financial instruments measured at amortized cost as of June 30, 2018, corresponds to their fair value.

Related party disclosures

There have been no material changes in relationships with related parties compared with the disclosures in the consolidated financial statements for the period ended December 31, 2017.

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

Reporting period January 1 to June 30

€ million	Sales and services to		Purchases from and services rendered by	
	2018	2017	2018	2017
Volkswagen Truck & Bus, Volkswagen AG, and Porsche Stuttgart [1]	3	3	50	38
Other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group	866	721	236	160
Unconsolidated subsidiaries of the MAN Group	29	26	6	5
MAN Group associates and joint ventures	69	81	47	109

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

Receivables from related parties amounted to €383 million as of June 30, 2018 (December 31, 2017: €307 million). In the same period, liabilities and obligations to related parties rose from €4,722 million to €5,079 million. The year-on-year increase results from borrowings from Volkswagen Truck & Bus amounting to €340 million. By contrast, there was a slight reduction in the share of profit attributable to Volkswagen Truck & Bus and the loan from Volkswagen AG to €1,900 million (December 31, 2017: €1,950 million). A perpetual credit facility of €3.0 billion has been agreed with Volkswagen AG. The liabilities to other subsidiaries and equity investments of Volkswagen AG that are not part of the MAN Group mainly relate to liabilities to Volkswagen Financial Services AG, Braunschweig, and its assigned national companies (Volkswagen Financial Services). The sale of receivables to subsidiaries of Volkswagen AG that are not part of the MAN Group amounted to €581 million in the first six months of fiscal 2018 (previous year: €448 million). Furthermore, customer liabilities to financing companies of the Volkswagen Group are covered by standard industry buyback guarantees. See "Contingent liabilities and commitments" for further information on buyback guarantees.

Based on the domination and profit and loss transfer agreement between Volkswagen Truck & Bus AG (formerly Volkswagen Truck & Bus GmbH) and MAN SE, the profit of €193 million for fiscal 2017 was transferred on March 1, 2018 (previous year: loss absorption of €99 million). No dividend was therefore distributed.

On June 30, 2018, Volkswagen Truck & Bus AG, Munich, (Volkswagen Truck & Bus), a wholly owned direct subsidiary of Volkswagen Aktiengesellschaft, Wolfsburg, held 75.73% of MAN SE's voting rights and 74.55% of its share capital.

Segment reporting

Please refer to the MAN Group's consolidated financial statements as of December 31, 2017, for information on the basis used for identifying and assessing the performance of reportable segments. Since June 2018, MAN Energy Solutions has been the new name for the MAN Diesel & Turbo segment, although there were no changes in the segment reporting compared with December 31, 2017. The adjustments to the measurement methods described in the "Accounting policies" chapter are also applied in the segments.

The following tables contain segment-related information for the first six months of 2018.

Reporting period January 1 to June 30

	Commercial Vehicles					
	MAN Truck & Bus		MAN Latin America		Commercial Vehicles	
€ million	2018	2017	2018	2017	2018	2017
Segment sales revenue	**5,194**	**4,784**	**674**	**552**	**5,813**	**5,296**
Intersegment sales revenue	– 61	– 45	– 3	– 5	– 10	– 11
Group sales revenue	5,133	4,739	670	547	5,803	5,285
Segment profit or loss (operating profit or loss)	**285**	**269**	**13**	**– 48**	**296**	**226**
Capital expenditures	**206**	**181**	**32**	**42**	**239**	**223**

	Power Engineering					
	MAN Energy Solutions		Renk		Power Engineering	
€ million	2018	2017	2018	2017	2018	2017
Segment sales revenue	**1,428**	**1,363**	**218**	**224**	**1,637**	**1,579**
Intersegment sales revenue	– 2	– 3	– 8	– 6	– 1	– 1
Group sales revenue	1,426	1,360	210	218	1,636	1,578
Segment profit or loss (operating profit or loss)	**51**	**43**	**17**	**30**	**68**	**73**
Capital expenditures	**54**	**81**	**6**	**5**	**61**	**86**

	Others						Group	
	Corporate Center [1]		Cons./Reconcil.		Total			
€ million	2018	2017	2018	2017	2018	2017	2018	2017
Segment sales revenue	**5**	**5**	**– 15**	**– 16**	**– 10**	**– 11**	**7,440**	**6,864**
Intersegment sales revenue	– 5	– 5	15	16	11	11	–	–
Group sales revenue	0	0	–	–	0	0	7,440	6,864
Segment profit or loss (operating profit or loss)	**– 32**	**– 24**	**– 13**	**– 3**	**– 44**	**– 27**	**319**	**273**
Capital expenditures	**3**	**1**	**–**	**–**	**3**	**1**	**302**	**310**

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

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

€ million	2018	2017
Total profit of the segments (operating profit of the segments)	**367**	**294**
Corporate Center operating loss	– 32	– 24
Earnings effects from purchase price allocations not attributed to the segments	– 8	– 9
Consolidation within business areas and within the MAN Group	– 7	12
Operating profit (MAN Group)	**319**	**273**
Financial result	202	– 28
Profit before tax and discontinued operations (MAN Group)	**521**	**245**

Review by the Group auditors

The half-yearly consolidated financial statements as of June 30, 2018, and 2017, were not reviewed by auditors.

Supervisory Board

Oskar Ritsch left the Supervisory Board on March 31, 2018. He was replaced by Werner Wiedemann effective April 1, 2018.

Additionally, Matthias Gründler left the Supervisory Board on May 17, 2018.

Events after the reporting period

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

RESPONSIBILITY STATEMENT

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

Munich, July 24, 2018

MAN SE

The Executive Board

MAN SE FINANCIAL DATES

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

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

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