

provide the basis for the MAN Group's internal control system. The control environment and the cross-process controls that form the framework of an effective and operational internal control system are documented at a central, overall level and regularly assessed to determine whether they are appropriate and functioning effectively. The risk managers on the risk boards report to the Executive Board on the effectiveness of the internal controls and any control weaknesses identified. The control structures are represented in a database solution, thereby supporting the system's uniform documentation throughout the Group. This database shows all the material companies in the MAN Group. The materiality of companies is reviewed annually on the basis of qualitative and quantitative criteria.

The Corporate Audit team regularly monitors the effective functioning of the MAN Group's risk management system as part of its activities, and initiates appropriate measures if necessary. When conducting its risk-oriented review, the Corporate Audit function also takes into account information on risks recorded and examines key risk factors if appropriate. The external auditors audit the ability of the risk early recognition system to identify at an early stage any developments that could endanger the Company's continuing existence. The effectiveness of the internal control system at process level is reviewed at least once a year by suitable internal testers and by means of spot checks performed by the Corporate Audit function. At the regular meetings of its Audit Committee, the Supervisory Board is briefed on the MAN Group's risk position and on material weaknesses in the Group's internal control system. Nevertheless, even if an appropriate and effective system is set up, there can be no absolute guarantee that risks will be identified and controlled.

## Accounting-related risk management system and internal control system

As a rule, the risk management system and internal control system also comprise the accounting-related processes as well as all risks and controls in respect of accounting. This relates to all parts of the risk management system and internal control system that could have a material effect on the consolidated financial statements.

The goal of the risk management system in respect of the accounting processes is to identify and assess risks that could run counter to the objective of preparing consolidated financial statements that comply with the relevant rules. Identified risks must be assessed in terms of their effect on the consolidated financial statements, including by using external specialists if necessary. In this context, the internal control system aims to provide sufficient assurance that, despite the risks identified, the consolidated financial statements are prepared in compliance with the relevant rules by implementing corresponding controls.

Both the risk management system and the internal control system extend to all subsidiaries that are significant for the consolidated financial statements, including all the processes relevant for preparing the financial statements. The accounting-related controls focus in particular on the risks of material misstatement in the financial reporting. The materiality of misstatements is assessed on the basis of the likelihood of occurrence and the financial effect on revenue, EBIT, or total assets.

The key elements of risk diversification and control in accounting 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 control principles in the accounting process.

The risks identified and corresponding measures taken are updated in the quarterly reports to the risk board and forwarded to the MAN Group's management. The effectiveness of internal controls in respect of accounting is assessed at least once a year, primarily during the preparation of the financial statements. In addition to the Corporate Audit function, the external auditors assess the accounting-related processes as part of their audit activities.

As part of their audit of the financial statements, the auditors are also obliged to report to the Supervisory Board's Audit Committee on accounting-related risks or control weaknesses and any other material weaknesses in the risk management system and internal control system that they identified during their audit activities.

## Opportunities and risks

The significant opportunities and risks that may have a considerable impact on the net assets, financial position, and results of operations are outlined below in line with the structure of the MAN Group's risk management system. This classifies risks into five risk fields: markets, products, processes, employees, and finances.

### Markets

Economic conditions on the capital and manufactured goods markets continue to be impacted by the effects of the financial crisis. The economic recession has bottomed out for the time being, but the uncertain outlook continues to affect demand for capital goods. Lending banks are exacerbating this trend by severely restricting credit and imposing tighter credit terms. For the MAN Group, this gives rise to the risk that demand will be stifled long-term or even fall further. The forward-looking approach taken over the past three years has led to substantially more flexible costs with which to manage and endure any fall in demand. Nevertheless, margins remain at risk from a sharp and rapid decline in volumes. On the other hand, an ailing economy may mean a drop in prices on procurement markets. Suppliers have also been affected by falling demand and financing problems. The MAN Group is keeping a close watch on suppliers' financial position and is putting alternatives in place. The expansion of the Company's after-sales activities represents an opportunity even in difficult times. Over the medium to long term, and with the current slump in demand behind it, the MAN Group continues to see opportunities for all divisions to achieve profitable growth in the transportation and energy market. The underlying global economic trends will continue, such as sustained economic growth, a greater international division of labor and resulting increase in global transport routes and volumes, capital spending by the oil and gas industry, and a need to innovate due to trends in global climate policy. Through its strategy of significantly strengthening its position in the current and future growth markets of the BRIC countries, the MAN Group is systematically endeavoring to increase its sales potential and thus counter regional economic risks.

### Products

As a leading supplier of advanced technology, it is the MAN Group's mission to develop technologically superior and highly cost-effective products that are of outstanding quality when launched on the market. Abandoning this mission would pose an unjustifiable risk to the Group's market position. However, the rollout of new products involves conceptual and market risks, which are managed through a careful strategic planning process that analyzes trends in the markets and business environment. The resulting product plans are used to manage our extensive research and development activities. For many years now, research and development expenses have been in the region of 3% to 4% of revenue. The launch of Euro 5 emission standard-compliant engines at MAN Nutzfahrzeuge and the introduction at MAN Diesel of the diesel combined cycle technology for stationary power plants, which boosts efficiency by 10% to 15%, clearly show that these risks can be successfully overcome. Products that have already been launched pose quality risks. Substandard quality may result in manufacturer's guarantee, statutory warranty, and ex gratia repair costs, and lead in the long term to 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 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 startup, defined quality assurance measures within the production process ensure that manufacturing defects are promptly identified and eliminated. During use, any defective products are collected, analyzed, and repaired in collaboration with the service operations. Long-term customer contracts give rise to additional risks: Changes in the political or economic conditions in a particular market may result in additional expenditure on major projects. At MAN Nutzfahrzeuge, buyback obligations pose a risk if the amount obtainable from the future sale of a used vehicle in the market changes significantly versus expectations at the time the contract was entered into. In the project business, risks arise as a result of guarantees or guarantee obligations. However, these are often covered by third-party guarantees,

or in the case of prepayment guarantees by prepayments received from customers. By carrying out intensive checks before and after extending guarantees, we have always been able to keep defaults to a minimum. The high-growth turnkey business at MAN Diesel, where the company functions as a lead contractor for the delivery of turnkey diesel power plants, entails particular risks in relation to timely and due and proper performance by subcontractors and therefore for MAN Diesel itself. The company combats this risk through appropriate controlling during all phases of the project.

### Processes

The MAN Group considers the continual optimization of its development, purchasing, production, sales, and administration processes to be a central and ongoing task. Inadequate processes in these areas result in excessive costs and, by tying up too much capital, in financing risks. Moreover, overstocked inventories regularly result in an increased risk of loss through shrinkage or scrapping, while excessively high receivables increase the risk of default. These risks tend to increase as the general economic situation deteriorates. MAN is therefore driving forward the systematic reduction in capital employed by improving the underlying processes.

Specific risks arise during major projects, including contracting deficiencies, miscosting, post-contracting changes in economic and technical parameters, and poor performance on the part of the consortium partners' subcontractors. The MAN Group minimizes these risks through comprehensive project and contract controlling. In the growing power plant market, for example, MAN Diesel uses a systematic and comprehensive risk management system right from the bidding phase. Costings and risk assessments are constantly examined and adjusted throughout the project implementation phase. Regular project reviews are used to determine and monitor the necessary measures. In addition, major projects are assessed by MAN SE's Controlling and Finance functions and submitted to MAN SE's Executive Board for approval. If any approved contracts deviate significantly from plan, they are tracked by way of a special reporting system for critical contracts.

As in any modern enterprise, the MAN Group's business processes are to a large extent supported by information technology. Besides improving efficiency, this also gives rise to risks. Parts of the infrastructure may fail as a result of accidents, disasters, or technical faults, thereby impairing a wide variety of business processes or bringing them to a complete standstill. There is also the risk of unauthorized access, theft, or the destruction of business information and data. The resulting financial damage and loss of image may affect individual MAN companies or even the entire MAN Group.

By centralizing and outsourcing IT operations, systematically introducing IT service management processes in accordance with ITIL (IT Infrastructure Library (standard for the organization of IT processes)), and increasingly organizing information security in the MAN Group in accordance with the internationally recognized standard ISO 27001, the MAN Group has significantly improved the transparency and reliability of the IT infrastructure. The latest hardware and software technologies ensure optimum support for business processes, and guarantee continuous data availability and protection against unauthorized access. A combination of regular data backups and control mechanisms reduce the risk that business data will be lost completely. Highly capable, state-of-the-art security mechanisms, such as firewall systems certified by the Bundesamt für Sicherheit in der Informationstechnik (BSI—German Federal Office for Information Security), are used to combat potential threats to the reliability of the systems and data, particularly from the Internet. The aim is to optimize the four main requirements of information security, namely availability (assured availability for use), integrity (accuracy, consistency, and completeness of information), confidentiality (protection against unauthorized viewing), and authenticity (proof and incontestability of personal identity), from a technical and organizational perspective and to optimize the related risk aspects.

The internal control system plays a key role. It is focused on ensuring compliance with the relevant regulations across all business processes and thus on helping to protect assets and reduce risks. With regard to financial reporting, the emphasis is on optimizing the process of preparing the financial statements to ensure the complete, timely, and correct processing of all transactions and business processes.